

Honorable Marc Barreca

**UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF WASHINGTON
AT SEATTLE**

IN RE:

MICHAEL R. MASTRO,

Debtor.

JAMES F. RIGBY, JR., Trustee, solely in
his capacity as Chapter 7 trustee of the
bankruptcy estate of Michael R. Mastro,

Plaintiff,

v.

MICHAEL R. MASTRO and **LINDA A. MASTRO**, and their marital community;
MICHAEL K. MASTRO and **JANE DOE MASTRO**, and their marital community;
LCY, LLC, a Delaware limited liability corporation; **LCY, LLC-SERIES HOME**;
LCY, LLC-SERIES JEWELRY; **LCY, LLC-SERIES AUTOMOBILES**; **THE LCY TRUST**; **COMPASS TRUST CORPORATION**, a purported Belizean entity; **COMPASS S.A.**; **MASTRO REVOCABLE LIVING TRUST**;
MASTRO IRREVOCABLE TRUST; **CONCEPT DORSSERS**, a purported Monaco company; **HENDRIK J. DORSSERS**; and **AVATAR INCOME FUND I LLC**, a Delaware limited liability company,

Defendants.

BANKRUPTCY NO. 09-16841 (CH. 7)

ADVERSARY NO. 09-01439-MLB

CORRECTED

**MEMORANDUM OPINION
FOLLOWING TRIAL¹**

¹ This disposition is not appropriate for publication. This Memorandum Opinion shall constitute the Court's findings of fact and conclusions of law pursuant to Fed. R. Civ. P. 52(a).

The Memorandum Opinion Following Trial (the "Opinion," Dkt. No. 783) entered on September 27, 2011 is being corrected to reflect the Court's oral ruling on November 4, 2011, solely to correct two typographical errors on page 7, line 17, and page 33, line 6. This Corrected Opinion shall be effective *nunc pro tunc* to September 27, 2011.

PROCEDURAL HISTORY

On July 10, 2009, several banks commenced an involuntary Chapter 7 bankruptcy against the debtor, Michael R. Mastro (“**Mastro**”). On August 21, 2009, the Bankruptcy Court (the “**Court**”) entered an Order for Relief and Judgment Granting Petition for Involuntary Chapter 7 Petition, and James F. Rigby, Jr. was appointed as Chapter 7 Trustee (the “**Trustee**”) for the Mastro estate. The present adversary proceeding was commenced by the Trustee on September 29, 2009. This matter was tried to the Court without a jury on designated days between April 19, 2011 and July 1, 2011.²

At the beginning of trial, the Guardian Ad Litem for defendant Mastro moved for entry of a stipulated default judgment against Mastro in the amount demanded by the Trustee. Mastro and his attorney joined in the motion. The Court postponed ruling on the motion while the parties discussed entry of a stipulated judgment against Mastro. On April 25, 2011, the Court entered a Stipulated Judgment Against Michael R. Mastro and His Marital Community (the “**Stipulated Judgment**”).

² Plaintiff Trustee appeared through his attorneys Spencer Hall, Gayle E. Bush, Christine M. Tobin-Presser and Janet D. McEachern. Defendant Linda A. Mastro appeared through her attorney Michael E. Gossler. Defendants Michael K. Mastro and Robin Mastro appeared through their attorney Donald A. Bailey. Defendants Concept Dorssers and Hendrik J. Dorssers appeared through their attorney John J. Tollefsen. Defendant Avatar Income Fund I LLC did not participate in the trial because the claims against Avatar were settled prior to trial. Defendants The LCY Trust, Compass Trust Corporation and Compass S.A. failed to appear for trial.

1 **FACTS³**

2 **Parties**

3 Plaintiff Trustee brought this action solely in his capacity as Trustee for the Mastro
4 estate.

5 Mastro and several of his family members are defendants in this proceeding. Defendant
6 Linda A. Mastro (“**Linda**”) is Mastro’s wife. Defendant Michael K. Mastro (“**Michael K**”) is
7 Mastro’s son, and defendant Robin Mastro (“**Robin**”) is Michael K’s wife. Defendant Mastro
8 Revocable Living Trust is a trust formed pursuant to the Mastro Revocable Living Trust
9 Agreement dated October 2, 2002 between Mastro and Linda as grantors, and Mastro as trustee.
10 Defendant Mastro Irrevocable Trust is a trust formed pursuant to the Mastro Irrevocable Trust
11 Agreement dated August 21, 2008 between Mastro and Linda as grantors, and Mastro and
12 Michael K as co-trustees.
13

14 Defendant LCY, LLC is a Delaware limited liability company and defendants LCY, LLC
15 – Series Home, LCY, LLC – Series Jewelry, and LCY, LLC – Series Automobiles are Delaware
16 series limited liability companies (collectively the “**LCY LLC Entities**”). Defendant LCY Trust
17 is a trust formed pursuant to The LCY Trust declaration dated October 10, 2008, and is the sole
18 member of the LCY LLC Entities.
19

20 Defendants Compass Trust Corporation and Compass, S.A. (the “**Compass Entities**”)
21 purport to be entities located in Belize. Compass Trust Corporation was the trustee of The LCY
22 Trust. Compass S.A. was the protector of The LCY Trust.
23

24
25 ³ The Court makes its findings in this Memorandum Opinion based both on the stipulated facts
26 set forth in the Pretrial Order (“**Pretrial Order**”) and the evidence presented at trial. Facts
discussed in other sections of this memorandum opinion, including, but not limited to, the
Analysis section, shall also constitute findings of fact by the Court.

1 Defendant Hendrik J. Dorssers is a married person who resides primarily in Monaco.
2 Hendrik J. Dorssers is the sole owner of a Monaco proprietorship named Concept Dorssers.

3 Defendant Avatar Income Fund I LLC (“**Avatar**”) is a Delaware limited liability
4 company with its principal place of business in Seattle, Washington.

5 **Refusals to Testify Based on Assertions of Fifth Amendment Rights**

6 Mastro refused to testify and produce documents regarding his financial condition during
7 the time period from December 1, 2007 to the present, and refused to testify and produce
8 documents regarding the transactions at issue in this adversary proceeding. Mastro based his
9 refusal to testify and produce documents on his Fifth Amendment right against self-
10 incrimination.
11

12 Similarly, Thomas R. Hazelrigg, III (“**Hazelrigg III**”), a close friend and associate of
13 Mastro, refused to testify and produce documents regarding the transactions at issue in this
14 adversary proceeding based on his Fifth Amendment right against self-incrimination.

15 **Mastro’s Business Background**

16 Mastro has been in the business of developing real estate since 1967. According to his
17 2008 Financial Report, Mastro developed and constructed in excess of \$2 billion of real estate
18 projects during the previous four decades, consisting primarily of multi-family housing,
19 commercial buildings, and single family residential lot plat projects.
20

21 Mastro also was heavily involved in “hard money” lending. Hard money loans are loans
22 too risky to meet the criteria of a bank or other conventional lender, typically involving loan fees
23 and interest rates substantially higher than those charged by conventional lenders. Mastro
24 primarily made hard money loans to cash-strapped real estate developers. The secondary
25
26

1 financing Mastro provided was typically collateralized with second or third deeds of trust on the
2 developer's real estate project.

3 Mastro's development operations and hard money lending generated negative cash flows.
4 He depended on borrowed money and property sales to keep his operations afloat. He had two
5 principal sources of financing. One source was short-term loans from banks, and the other was
6 loans from investors known as "**Friends and Family.**" The Friends and Family loans were
7 payable on demand. Financing illiquid real estate projects and property with short term loans
8 created very high levels of risk for Mastro in the event of a downturn in the real estate market,
9 since the likelihood of these loans being called, or not being extended or renewed, increased
10 significantly.
11

12 **Mastro's Financial Problems and Insolvency**

13 By early 2008, the real estate market began to decline both nationally and in the Pacific
14 Northwest. The decline in the real estate market severely impacted Mastro's business. By
15 August 2008, the real estate market for single family homes and condominiums in the Pacific
16 Northwest had been in a significant and prolonged state of decline. Moreover, Mastro's hard
17 money borrowers – mostly real estate developers - were unable to pay, and Mastro's second and
18 third collateral positions declined significantly in value. Mastro was unable to comply with all
19 the demands that lenders were making for payment or additional collateral on his maturing bank
20 debt.
21

22 As set forth above, Mastro's business operations generated negative cash flow, requiring
23 Mastro to borrow money from lenders and Friends and Family or to sell off assets with sufficient
24 equity after paying off secured lenders to provide cash to his business. During the second half of
25 2008, Mastro was experiencing a negative cash flow on his operations in the amount of
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1 approximately \$2.5 million per month, excluding repayments required on demand notes held by
2 Friends and Family and excluding development costs relating to on-going projects that could not
3 be funded through construction loans. Sales of completed projects had generally ceased, leaving
4 insufficient funds to cover the operational losses.

5 Many of Mastro's hard money loans had become worthless by August 2008, or were
6 severely impacted. For instance, in August 2008 Mastro had in excess of \$25 million in cash
7 losses on five loans related to Hazelrigg III. Not a single payment was made on these five loans
8 in 2008. In August 2008, Mastro's projected receipts on hard money loans totaled less than
9 \$50,000 per month compared to Mastro's obligation to pay more than \$900,000 in interest per
10 month to lenders from whom Mastro borrowed funds to enable him to make the hard money
11 loans.
12

13 Throughout 2008, Mastro owed approximately \$100 million to Friends and Family
14 investors. All the Friends and Family obligations were payable on demand. During the period
15 June through September, 2008, Mastro's repayments on the Friends and Family obligations (net
16 of any funds received) averaged approximately \$680,000 a month. On or about September 30,
17 2008, Mastro attempted to alleviate the concerns of Friends and Family investors by sending
18 them a letter that stated, *inter alia*, "Our organization is strong and healthy, in no small part
19 because of the relationship we value so greatly with lenders including you, our friends and
20 family. I hope this report has eased any concerns you may have." This letter was followed by a
21 letter dated October 10, 2008, in which Mastro wrote that he found it necessary to "rescind our
22 long-standing policy of re-paying any Friends and Family loan, in any amount, immediately
23 upon demand."
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1 Mastro's financial records were kept on a cash basis. However, his financial statements
2 were not prepared in accordance with generally accepted accounting principles and were not
3 audited or reviewed by independent accountants. The asset values shown in Mastro's financial
4 statements were not based on the acquisition cost of the properties. Instead, the asset values
5 were based on appraisals or on Mastro's own estimates of value. Many of the appraisals were
6 outdated. Consequently, Mastro's financial statements did not provide a reliable assessment of
7 his financial condition.

8 Mastro's financial statements showed his net worth at the end of 2008 to be
9 approximately \$125.6 million. Mastro's amended bankruptcy schedules, filed nine months later,
10 show Mastro's net worth to be negative \$196.4 million. In the amended bankruptcy schedules,
11 Mastro valued his assets at approximately \$384.6 million and his liabilities at approximately
12 \$581.0 million.

14 In sum, beginning sometime before August 21, 2008, and continuing through August 21,
15 2009, the date of the court order granting the Chapter 7 petition, Mastro had an unreasonably
16 small amount of capital for the business in which he was engaged, was unable to pay obligations
17 to his lenders as the obligations became due, and his liabilities exceeded his assets. Mastro
18 became insolvent sometime before August 21, 2008, and remained insolvent at all times through
19 August 21, 2009.

21 **Linda's Lack of Veracity and Unconditional Deference to Mastro**

22 Generally, this Court found Linda to be a witness lacking veracity as her testimony was
23 often transparently vague, contradictory, and self-serving. For example, at trial she disavowed
24 having signed numerous documents that she had admitted to signing in her deposition. In
25 addition, important portions of Linda's sworn testimony, submitted to the Court via declaration
26

1 prior to the trial, proved to be utterly false. She disclaimed knowledge of her own affairs to such
2 an extent that her testimony was not credible.

3 It is clear to this Court that although Linda claimed she was unaware of her husband's
4 activities regarding their financial and personal affairs, and hid behind her husband's control of
5 their affairs, she very much wanted to reap the benefits of his activities and willingly acquiesced
6 in his management of their affairs. Moreover, she repeatedly testified that she was aware Mastro
7 signed her name on various documents, and that she had, either expressly or implicitly, given
8 him unconditional, absolute permission to do so. Despite her prior work experience as a banker,
9 she testified that she totally deferred to Mastro with regard to financial matters. She indicated
10 that she had always relied on Mastro in such a manner, and his having control of their financial
11 affairs had always worked out well for her in the past. Indeed, Linda substantially benefited
12 from Mastro's management of their affairs. In essence, Mastro controlled every aspect of their
13 financial affairs with Linda's unconditional blessing.
14

15 **Mastro's and Linda's Relationship and Marriage**

16 Mastro and Linda met in the mid-1970s and, following a long courtship, married on June
17 3, 1989. Prior to their wedding, Mastro and Linda entered into a Premarital Agreement (the
18 "**Premarital Agreement**"). The recitals to the Premarital Agreement indicate that Mastro
19 owned "substantial real property, personal property and pecuniary rights, which he will continue
20 to own after marriage as his separate property," and that he intended "to continue devoting all his
21 time and efforts, after marriage, to the management and enhancement of his separate property
22 and the rents, issues and profits thereof." Mastro's and Linda's respective separate estates were
23 itemized and attached to the Premarital Agreement. Linda's separate estate allegedly included
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1 cash (\$204,301), a house (\$450,000), a car (\$20,000), jewelry (\$1,000,000), furs (\$200,000) furs,
2 and furniture (\$100,000). Her net worth was stated to be \$1,947,301.

3 The Premarital Agreement provided, in part:⁴

4 The property rights, earnings and acquisitions of each party, from
5 whatever source, shall be the same as if the parties were not
6 married or cohabitating. All earnings of either party resulting from
7 the personal efforts of a party shall be the separate property of the
8 one devoting his or her personal efforts. Any enhancement in
9 value, from whatever cause, shall inure to the benefit of the owner
10 of the asset. If one party devotes labor to the separate property of
the other, the value of such labor, or any resulting enhancement in
value, shall not give the party devoting the labor any legal or
equitable interest in the other's separate property, unless otherwise
agreed in writing.

11 . . .

12 All assets of every kind, which either party may acquire, shall be
13 the separate property of the acquiring party, except as hereafter set
14 forth. Any gift of separate property, from one party to the other,
shall be the separate property of the one to whom the gift is made
if said gift is in writing; provided, however, that no writing is
required as to a gift of personal property of ornamental or personal
use, such as jewelry or clothing.

15 . . .

16 Mike . . . shall be obligated to compensate Linda and the
17 community for his earnings and acquisitions being his separate
property.

18 . . .

19 A bank account shall be opened entitled "**Mastro Special**
20 **Account,**" on which checks or withdrawals shall be signed by
Mike.

21 All deposits into the Mastro Special Account shall be community
22 property.

23 Mike shall deposit into the Mastro Special Account, from his
24 separate funds, \$200,000 per year . . . in monthly or other
convenient periodic intervals.

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26

⁴ Bolded emphases added.

1 The source of the funds deposited shall be from . . . earned income
2 of Mike, or, . . . from Mike's other separate property. . . . Any
3 balance of Mike's earnings, which may be in excess of \$200,000
4 per year, shall remain his separate property.

5 Any assets acquired with Mastro Special Account funds shall be
6 community property.

7 The parties shall also open a checking account entitled "**Mike and
8 Linda Mastro Account**," on which checks or withdrawals may be
9 made by either of them. Deposits . . . shall be made by transfer of
10 funds from Mike's separate property. Mike agrees to deposit
11 \$5,000 per month into this account, which shall be primarily for
12 Linda to manage. All funds deposited into this account shall be
13 community property. Any assets acquired with these funds shall
14 also be community property.

15 All community living expenses shall be paid from the [Mastro
16 Special Account and Mike and Linda Mastro Account.]

17 . . .

18 This Agreement shall be governed by and construed in accordance
19 with the laws of the State of Washington, no matter where the
20 parties may reside.

21 . . .

22 Linda hereby acknowledges that all property acquired by Mike
23 prior to and after June 3rd, 1989, the date of their marriage, is the
24 separate estate of Michael R. Mastro.

25 In essence, Mastro's and Linda's separate property at the time of their marriage was to
26 remain their separate property, any enhancements from their separate property were also to
remain their separate property, and they were to create a very limited amount of community
property by establishing the "Mastro Special Account" and "Mike and Linda Mastro Account."

27 The actions and inactions of Mastro and Linda following their marriage were directly and
28 substantially in contravention of the terms of the Premarital Agreement. For example, Mastro
29 and Linda failed to open the two bank accounts described in the Premarital Agreement. No
30 "Mastro Special Account" was opened to provide for the gradual accumulation of community

1 property in the amount of \$200,000 per year. Likewise, no new “Mike & Linda Mastro
2 Account,” described as an account into which Mastro was to make a monthly deposit and to be
3 primarily managed by Linda for her personal use, was opened.

4 Rather, Mastro and Linda held and enjoyed a wide array of property together, including
5 their residences, vehicles, various items of jewelry, and funds in various bank accounts on which
6 they were both signators.

7 As of July 2008, Mastro and Linda owned three vehicles, all titled in Linda’s name – (1)
8 a 2007 Bentley (the “**Bentley**”), (2) a 2008 Phantom Rolls Royce (the “**Rolls Royce**”), and (3) a
9 2006 Range Rover (the “**Range Rover**). Mastro primarily drove the Bentley and Linda
10 primarily drove the Range Rover. The Rolls Royce was purchased in June 2008.

11 At the time Mastro proposed marriage to Linda, he gave her a diamond engagement ring (the
12 “**Engagement Ring**”), which was later stolen in the early 1990s. The ring that Linda referred to
13 at trial as her “engagement ring” was not in fact the original Engagement Ring given to her by
14 Mastro. Rather, Linda was referring to a wholly different, larger diamond ring – a 14 karat white
15 gold ring with a 15.93 carat round diamond (the “**15.93 Carat Ring**”) -- that Mastro and she
16 acquired years after they had been married, and years after her original Engagement Ring was
17 stolen.⁵ In 2005, in early celebration of their wedding anniversary, Mastro and Linda acquired a
18 platinum ring with a 27.80 carat pear shaped diamond (“the **27.80 Carat Ring**”). Both the 15.93
19 Carat Ring and 27.80 Carat Ring were acquired with community assets.

20 Linda testified during trial that she does not now know the location of the 15.93 Carat
21 Ring or the 27.80 Carat Ring. She testified that she gave them to Mastro because she was “sick
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25 ⁵ In fact, the 15.93 Carat Ring was acquired only after an earlier, smaller diamond ring that was
26 itself purchased post-marriage by Linda and Mastro, years after her original Engagement Ring
had been stolen.

1 of those rings.” According to Linda’s attorney, Mastro refused to tell Linda where the rings are
2 located. Linda testified that she does not believe they have been sold, but does not know for
3 sure. The Court finds that as of the time of Linda’s testimony to the Court Mastro and Linda still
4 held the rings and that Linda knew where the rings were and had joint control of the rings with
5 her husband.

6 As set forth above, during the course of Mastro’s and Linda’s relationship, Mastro
7 controlled every aspect of their financial affairs with Linda’s unconditional approval. At trial,
8 Linda testified that she believed she had executed a general power of attorney in favor of Mastro,
9 even though she said the signature on the version submitted into evidence was not definitively
10 her own. Whether a legally enforceable power of attorney was executed or not, Linda’s
11 testimony was clear that she had authorized Mastro to manage her financial affairs and to sign
12 her name on documents at his pleasure. Linda repeatedly testified that Mastro handled all of
13 their financial affairs, that she was aware Mastro signed her name on various documents, and
14 that this arrangement was wholly acceptable to her. Mastro’s management of his and Linda’s
15 affairs was broader than mere management of their marital community. Linda’s testimony
16 indicated that her ongoing approval of Mastro’s discretion in managing their affairs was absolute
17 and unconditional – regardless of what property was affected by his actions.

20 **Mastro Revocable Living Trust**

21 On or about October 2, 2002, Mastro and Linda as grantors, and Mastro, as trustee,
22 entered into the Mastro Revocable Living Trust Agreement, forming the Mastro Revocable
23 Living Trust (the “**Revocable Trust**”). The named beneficiaries of the Revocable Trust were
24 Mastro and Linda as long as both of them were still living. Over time Mastro and Linda
25 conveyed three houses into the Revocable Trust.
26

1 On or about October 2, 2002, Mastro and Linda, as husband and wife, executed a
2 quitclaim deed conveying the “**Clyde Hill House**,” a house located at 2040 89th Avenue N.E.,
3 Clyde Hill, WA that they had acquired on or about December 27, 1993, to Mastro as trustee of
4 the Revocable Trust.

5 On or about July 19, 2006, Mastro and Linda acquired a house located at 3435 Evergreen
6 Point Way, Medina, WA (the “**Medina Residence**”) for \$15,000,000. On or about June 9, 2008,
7 they executed a quitclaim deed conveying the Medina Residence to Mastro, as trustee of the
8 Revocable Trust.

9 On or about July 7, 2008, Mastro as trustee of the Revocable Trust, acquired a residence
10 located at 153 N.W. Highland Drive, Shoreline, WA (the “**Highlands House**”). Thus, as of
11 August 2008, the Revocable Trust owned the Clyde Hill House, Highlands House and Medina
12 Residence. The Clyde Hill House, Highlands House, and Medina Residence, were free and clear
13 of liens, and were among Mastro’s and Linda’s most valuable unencumbered assets. No
14 consideration was paid for the transfer of the properties into the Revocable Trust.
15

16 **Mastro Irrevocable Trust**

17 On or about August 21, 2008, Mastro and Linda, as grantors, and Mastro and Michael K,
18 as co-trustees, entered into the Mastro Irrevocable Trust Agreement, forming the Mastro
19 Irrevocable Trust (the “**Irrevocable Trust**”). The named beneficiaries of the Irrevocable Trust
20 were Mastro and Linda. On or about August 21, 2008 Mastro, as trustee of the Revocable Trust,
21 executed a quitclaim deed conveying the Clyde Hill House, Highlands House, and Medina
22 Residence to Mastro and Michael K, Co-Trustees of the Irrevocable Trust. The properties were
23 valued by Mastro and Linda (in the Irrevocable Trust documents) at \$23.7 million and were
24 unencumbered at the time they were transferred into the Irrevocable Trust. Specifically, the
25
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1 Medina Residence was valued at \$18 million, the Clyde Hill House was valued at \$3.5 million,
2 and the Highlands House was valued at \$2.2 million. The properties were among Mastro's and
3 Linda's most valuable Assets, and no consideration was paid for the transfer of the properties
4 into the Irrevocable Trust. Linda testified that Mastro signed her name on the Irrevocable Trust
5 Agreement.

6 At all times, Mastro had de facto control over transactions involving the Irrevocable
7 Trust. The concurrence of both co-trustees of the Irrevocable Trust was technically required for
8 any transfer of property out of the Irrevocable Trust. However all transactions involving the
9 Irrevocable Trust were done pursuant to Mastro's directions. Michael K's participation in the
10 Irrevocable Trust appears to have been motivated by his personal relationship with his father.
11

12 Michael K did not have the ability to use the assets of the Irrevocable Trust for his own
13 personal purposes, and did not do so. All documents effecting transfers of property into or out of
14 the Irrevocable Trust name Michael K solely in his capacity as co-trustee. He never had a
15 beneficial interest in any of the assets held in the Irrevocable Trust. Further, he did not derive
16 any personal benefit from transfers of property into and out of the Irrevocable Trust, nor were
17 such transfers intended to benefit him.
18

19 Avatar Loan

20 On or about September 17, 2008, Avatar made a loan in the amount of \$3,360,000 to the
21 Irrevocable Trust and received a deed of trust on the Clyde Hill House and the Highlands House
22 as security for the loan (the "**Avatar Loan**"). Both Mastro and Michael K as co-trustees of the
23 Irrevocable Trust gave their consent to the Avatar Loan. All proceeds of the Avatar Loan, less
24 loan charges and closing costs, were paid directly to Mastro or Linda. The disbursements of the
25 proceeds of the Avatar Loan included a \$200,000 check payable to Linda. None of the proceeds
26

1 of the Avatar Loan were paid to the Mastro Irrevocable Trust. Neither Mastro nor Linda
2 provided any consideration for the proceeds they received from the Avatar Loan.

3 **Sale of the Highlands House**

4 On or about October 28, 2008, Mastro and Michael K caused the Irrevocable Trust to sell
5 the Highlands House for \$1,950,000. All sale proceeds were paid to Mastro or for his benefit.
6 Avatar received \$1,100,000 of the sale proceeds as a payment on the Avatar Loan; another
7 secured creditor, Al Monjazebe received \$250,000 as a payment on a different loan; Mastro took
8 \$417,978.41 in cash; and the balance went to closing costs. Mastro did not provide any
9 consideration for the funds paid to him or for his benefit from the sale of the Highlands House.
10

11 **The LCY Trust**

12 On or about October 10, 2008, Mastro formed an offshore asset protection trust named
13 the “**LCY Trust**” of which Mastro and Linda were the grantors and the primary beneficiaries.
14 The LCY Trust was arranged such that Mastro had the unilateral ability to cause all of the trust
15 assets to be distributed to himself or in any other manner that he directed at any time. The
16 trustee of the LCY Trust was Compass Trust Corporation. The protector of the LCY Trust was
17 Compass SA, a Belizean company. Mastro was the one-man advisory committee for Compass
18 S.A., and under the terms of the LCY Trust agreement, the advisory committee controlled
19 Compass S.A. who, in turn, controlled the trustee, Compass Trust Corporation. Thus, Mastro
20 had effective control over the LCY Trust and all its assets.
21

22 From the time of formation, the LCY Trust was the owner and sole member of a series of
23 Delaware limited liability companies known as: (1) LCY, LLC, (2) LCY, LLC – Series Home,
24 LCY, (3) LCY, LLC – Series Jewelry, and (4) LCY, LLC – Series Automobiles (again,
25 collectively the “**LCY LLC Entities**”). Mastro and Linda transferred assets into the LCY Trust
26

1 by placing ownership of the assets in the LCY LLC Entities. No consideration was paid for the
2 transfers of assets into the LCY Entities or LCY Trust. The formation documents for LCY, LLC
3 named Mastro alone as manager, while the formation documents for LCY, LLC – Series Home,
4 LCY, LLC – Series Jewelry and the LCY, LLC – Series Automobiles named Mastro and Linda
5 as managers.

6 After establishing the LCY Trust and LCY LLC Entities, Mastro and Linda undertook a
7 series of transactions to transfer their most valuable assets into the entities. Linda testified that
8 Mastro signed her name on most of the documents related to the LCY Trust, and that she was
9 unaware of her husband's activities related to the LCY Trust and LCY LLC Entities. The Court
10 does not believe Linda's assertion that she did not participate in utilizing the LCY Trust and
11 LCY LLC Entities to protect Mastro's and her assets. The Court finds that although Mastro
12 appeared to have signed Linda's name on various LCY Trust-related documents, Linda also
13 actually signed various LCY Trust-related documents and had knowledge of the LCY Trust from
14 its inception.
15

16 Moreover, Linda's knowledge of the LCY Trust and involvement therewith is confirmed
17 by the documentary evidence. For example, on January 20, 2009 Linda received a check written
18 on the LCY Account, in the amount of \$125,000. She admitted at trial that as of January 20,
19 2009, she was aware of the LCY Account. She testified that she sent the \$125,000 to Compass
20 Trust Corporation to assist in setting up yet a *new* trust. Moreover, Linda admitted to signing (in
21 four places) a document relating to the LCY Trust, titled "Declaration of Trust," on or about
22 January 6, 2009. The Court, therefore, finds that Linda knew of and participated in the
23 establishment of the LCY Trust.
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MEMORANDUM OPINION FOLLOWING TRIAL - 16

1 **1. LCY LLC – Series Home**

2 By Quit Claim Deed dated October 10, 2008, Mastro and Michael K, as co-trustees of the
3 Irrevocable Trust, conveyed the Medina Residence into LCY, LLC – Series Home. The Medina
4 Residence was not encumbered by any perfected lien at the time it was transferred.

5 **2. LCY LLC – Series Automobiles**

6 By Assignment, dated October 10, 2008, and Gift Statement, dated October 10, 2008,
7 Linda conveyed the Rolls Royce, titled in her name (although the vehicle was in fact a
8 community asset), to LCY, LLC – Series Automobiles. Mastro, as manager of LCY, LLC –
9 Series Automobiles, executed a Letter of Acceptance dated October 10, 2008. The Rolls Royce
10 was not encumbered by any perfected lien at the time it was transferred. Although the LCY,
11 LLC – Series Automobiles formation agreement also contemplates transfer of the Bentley and
12 Range Rover, no assignment documents or other evidence of transfer regarding the Bentley or
13 Range Rover was offered into evidence.
14

15 **3. LCY LLC – Series Jewelry**

16 By Assignment, dated October 10, 2008, Mastro and Linda transferred ownership of the
17 following jewelry to LCY, LLC – Series Jewelry: (a) the 27.80 Carat Ring; (b) the 15.93 Carat
18 Ring; (c) one 18 karat yellow gold diamond solitaire ring with one 14.17 carat round diamond;
19 (d) one 18 karat yellow gold ring with one 9.68 carat diamond; (e) one 18 karat yellow gold ring
20 with two rows of seven diamonds, two rows of five diamonds and two rows of three diamonds;
21 (f) two 2.5 carat earrings; and (g) one ring with one 10.25 carat diamond (collectively, the “**LCY**
22 **LLC Jewelry**”). Linda admitted in a declaration⁶ to signing the Separate Series Agreement
23 LCY LLC – Series Jewelry document, and the attendant assignment document.
24
25

26

⁶ Declaration of Linda A. Mastro, Dkt. No. 144, dated January 5, 2010.

1 Linda claimed that five of the seven items of LCY LLC Jewelry did not exist at the time
2 of the transfer (specifically, items (c)-(g) above), and that only the 27.80 Carat Ring and 15.93
3 Carat Ring (together the “**Big Rings**”) actually were transferred into LCY, LLC- Series Jewelry.
4 Given this Court’s conclusions regarding Linda’s lack of veracity, the Court finds her assertion
5 that some of the LCY LLC Jewelry did not exist at the time of transfer not credible, and finds
6 that all of the LCY LLC Jewelry actually was so transferred into LCY LLC – Series Jewelry.
7 The Court further finds that Mastro and Linda are currently in joint control of tLCY LLC
8 Jewelry.
9

10 **4. LCY LLC**

11 On approximately December 2, 2008, Mastro opened a bank account in the name of
12 “LCY LLC” at JP Morgan Chase (“**LCY Account**”), on which Mastro and Linda were the only
13 authorized signers. Mastro transferred net funds into the LCY Account totaling approximately
14 \$1 million. The transfers included a \$200,000 check payable to Linda received as proceeds from
15 the Avatar Loan. The LCY LLC Account was not disclosed on Mastro’s bankruptcy schedules.
16 It was discovered through documents produced by Nordstrom in response to a subpoena. The
17 Court does not believe Linda’s assertions that she was unaware of the LCY Account at or near its
18 inception.
19

20 **Dorssers and the \$12 Million Medina Deed of Trust**

21 Hendrik J. Dorssers (“**Hendrik Dorssers**”) is a resident of Monte Carlo, Monaco and has
22 resided there since 1978. He is the owner of “**Concept Dorssers**,” his trade name registered
23 with the Principality of Monaco since 1997. Concept Dorssers is a proprietorship, not a separate
24 legal entity. This Court shall refer to Hendrik Dorssers and Concept Dorssers together as
25
26

1 “**Dorssers**,” unless the distinction between the two is relevant - in which case the Court shall
2 refer to them separately as “Hendrik Dorssers” or “Concept Dorssers.”

3 Through work contacts, Dorssers developed a friendship with Hazelrigg III, a long-time
4 friend of Mastro. Hazelrigg III introduced Dorssers to Mastro. Dorssers had little personal
5 contact with Mastro, but successfully made a few investments with Mastro over the years,
6 including in a fund Mastro termed "Friends and Family" lenders.

7 On November 5, 2008, Mastro and John Mastandrea (“**Mastandrea**”) executed a
8 promissory note in the amount of \$1.2 million (the “**November Note**”) in favor of Hendrik
9 Dorssers, secured by a second position deed of trust on property known as “**Cascade Lots**.” On
10 November 6, 2008, Hendrik Dorssers wired \$1,185,136.01 to Michael R. Mastro Properties.

11 The November Note indicated that payments to Dorssers were to begin on December 5,
12 2008. Consistent with the November Note, from December 2008 to July or August of 2009,
13 Dorssers received at least seven interest-only payments in the amount of \$9,876.13 each.⁸ This
14 payment amount (\$9,876.13) would reflect 10% per annum interest-only payments on a
15 \$1,185,136 balance. The Court finds that these payments related to the November Note.
16

17 Dorssers became concerned with the quality and extent of his security interest in the
18 Cascade Lots and requested that Mastro provide him with additional security for the November
19 Note loan. Dorssers and his wife, Dina, communicated back and forth with a Mastro associate
20 regarding same.
21

22 In a separate purported transaction, on or about February 16, 2009, Mastro, Linda, and
23 LCY, LLC–Series Home executed a promissory note in favor of Concept Dorssers (the
24

25 ⁸ The Court has only seven checks submitted into evidence (December 2008, and January,
26 March, April, May, June, and July 2009); however, Dorssers’ assertion of having received nine
payments is undisputed. The December payment was for \$8,117.37, rather than \$9,876.13,
apparently reflecting proration.

1 “**February Note**”), secured by a deed of trust on Mastro’s and Linda’s Medina Residence (the
2 “**Medina Deed of Trust**”). The February Note provided that “Maker promises to pay the sum of
3 Twelve Million and No/100 Dollars (\$12,000,000.00 U.S.) or so much thereof as may be
4 disbursed to, or for the benefit of the Maker in accordance with the terms of this Note.” The
5 Medina Deed of Trust states that the grantor is LCY, LLC – Series Homes, that the grantee is
6 Concept Dorssers, and that its purpose is to secure all amounts due under a \$12 million
7 promissory note “of even date.”⁹ Notably, the Medina Deed of Trust, by its own terms, does not
8 secure the earlier November Note, but rather the February Note of “even date.”
9

10 The February Note and Medina Deed of Trust transaction was purportedly closed by
11 escrow on February 20, 2009 pursuant to the Closing Agreement and Escrow Instructions (the
12 “**Escrow Agreement**”). An addendum (the “**Addendum**”) to the Escrow Agreement provided
13 that \$1,200,000 of the \$12,000,000 loan had been “[a]dvanced to the borrower outside of this
14 escrow” and that the “remaining balance of \$10,800,000 will be disbursed by the lender directly
15 to the borrower outside of this escrow.” Dorssers has never claimed that he intended, or would
16 have been able, to advance funds in any amount even close to \$10,800,000. It is undisputed that
17 Dorssers advanced no new funds to LCY LLC – Series Home, Linda, or Mastro, in connection
18 with the February Note transaction. The Addendum further provided that “[t]he 1% loan
19 origination fee of \$120,000.00 has been or will be paid to the lender outside of this escrow.”
20

21 The Medina Deed of Trust was recorded on February 20, 2009. However, there was no
22 intent by Linda, Mastro, or LCY LLC – Series Home to encumber the Medina Residence to
23 secure any obligation to Dorssers. Rather, the recording of the Medina Deed of Trust was
24

25 ⁹ The reference to LCY, LLC – Series Homes appears to be an inaccurate reference to LCY LLC
26 – Series Home.

1 intended by Mastro to hinder, delay or defraud his creditors by giving the appearance that the
2 Medina Residence was encumbered for a \$12,000,000 obligation while it really was not.

3 On an unknown date, it appears that Mastro, Linda, and LCY LLC-Series Home signed
4 an undated one-page agreement called Loan Fee (the “**Loan Fee Agreement**”) referencing the
5 February Note. The Loan Fee Agreement provided that Mastro, Linda, and LCY LLC-Series
6 Home would pay Concept Dorssers \$120,000 as a loan fee, and that payments to Concept
7 Dorssers in the amount of \$3,000.00 per month would commence March 1, 2009. The Loan Fee
8 Agreement does not appear to have been signed by Dorssers. Once monthly, from March to July
9 2009, Dorssers received five \$3,000 checks.
10

11 The February Note transaction was never consummated and was a sham. Although
12 Dorssers advanced approximately \$1,200,000 in connection with the November Note, Dorssers
13 did not advance new funds as contemplated by the express terms of the February Note. The
14 November 2008 Promissory Note was not canceled and remains unpaid. And, the plain terms of
15 the February Note and Medina Deed of Trust are blatantly inconsistent with the transaction that
16 Dorssers asserts occurred. Thus, nothing is owed on the February Note and Medina Deed of
17 Trust.
18

19 Further, Dorssers did not receive delivery of the February Note. Although Dorssers
20 testified that in 2009, while staying at a property owned by or rented to Hazelrigg III, he briefly
21 held a stack of papers containing the original February Note and Medina Deed of Trust, the
22 Court finds his version of events to be self-serving and inaccurate. Although the Court found
23 Dorssers to be a generally truthful witness, his memory often seemed poor and he appeared
24 particularly confused about the timing and sequence of these events.
25
26

1 After delivery of the February Note became an issue in this case, possession of the
2 February Note was requested by Dorssers' present counsel. The Court ordered Trustee's counsel
3 to hold the original February Note.¹⁰ Among the documents delivered with the February Note
4 was a reconveyance of the Medina Deed of Trust (the "**Medina Reconveyance**") which
5 purported to be signed by Dorssers. However, Dorssers testified that the signature was a forgery,
6 that he would not have signed something that would have risked nullifying his security interest,
7 and that the signature was not done in the pattern of his regular signature. The Court finds that
8 Dorssers, indeed, did not sign the Medina Reconveyance.
9

10 On or about September 11, 2009, Dorssers was awakened in the middle of the night at his
11 Monaco home by an incoming fax from Hazelrigg III. The fax was a "**Memorandum of**
12 **Understanding,**" back-dated to December 11, 2008. Dorssers immediately called Hazelrigg III
13 to inquire about it. Hazelrigg III advised Dorssers that he needed to sign the document. The
14 Memorandum of Understanding purported to set forth a December 11, 2008 agreement for
15 Concept Dorssers to enforce the February Note and Medina Deed of Trust on behalf of other
16 parties also purportedly secured by the Medina Deed of Trust. After Hendrik Dorssers saw
17 Concept Dorssers was listed in the Memorandum of Understanding as being first position on the
18 Medina Deed of Trust, Dorssers signed the document, faxed it back to Hazelrigg III, and went
19 back to sleep. No Memorandum of Understanding bearing Mastro's original signature has been
20 produced or offered into evidence. Dorssers admitted that the first time he ever saw the
21 Memorandum of Understanding was when it was faxed to him in the middle of the night on
22 September 11, 2009.
23
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25

26 ¹⁰ The Court ruled the production of the original note was not to alter the status quo of the parties with regard to whether "delivery" had or had not been effectuated.

1 Hazelrigg III hired Cairncross & Hempelmann, P.S. ("Cairncross") to represent Concept
2 Dorssers with regard to the February Note and Medina Deed of Trust. In September 2009, on
3 behalf of Concept Dorssers and other investors ostensibly covered under the Medina Deed of
4 Trust, Cairncross caused a Notice of Default to be issued, asserting the entire February Note was
5 in default. Dorssers eventually obtained separate counsel and terminated efforts to foreclose on
6 the entire \$12,000,000 February Note.

7
8 **Mastro's and Linda's Use of LCY Account Funds**

9 Mastro and Linda distributed to themselves or spent for their benefit \$995,106 from the
10 LCY Account, net of amounts that they withdrew and later re-deposited back into the account.
11 They used the LCY Account funds to pay for luxury automobiles, fine dining, designer clothing,
12 trips to ski resorts, travel to Europe and Palm Springs, gold and lawyers. Examples include: (a) a
13 cash payment of \$125,000 to Linda on January 20, 2009, (b) the purchase of 100 gold coins¹¹, (c)
14 payment of \$85,500 to Mastro's attorneys (Bucknell and Frush), as well as attorneys
15 representing Linda (Gossler), and Michael K (Malnati),¹² (d) payments of more than \$73,000 on
16 the Bentley and the Rolls Royce, and (e) expenditures of more than \$42,000 on luxury travel
17 (including stays in London, Paris, Rome, Milan, and Gstaad, Switzerland).
18

19 On July 10, 2009, the date of Mastro's bankruptcy filing, the balance in the LCY Account
20 was \$379,039.37. However, despite being an asset of the estate, the LCY Account was not listed

21
22 ¹¹ Notably, these coins were purchased in August or September of 2009, and are not to be
confused with the gold coins purchased later in December 2009-January 2010.

23 ¹² On approximately February 17, 2010, Mastro used funds from the LCY Account to purchase
24 cashier's checks payable to his attorneys as follows: Bucknell (\$20,000) and Frush (\$10,000).
25 On approximately March 8, 2010, Mastro used funds from the LCY Account to purchase
26 cashier's checks payable to his and Linda's attorneys as follows: Bucknell (\$15,000), Gossler
(\$12,000), Frush (\$10,000), and Malnati (\$8,000). On approximately April 20, 2010, Mastro
used funds from the LCY Account to make two payments totaling \$10,500 to Michael K's
attorney, Malnati.

1 in the bankruptcy schedules filed by Mastro. On March 29, 2010, the Court entered an order
2 stating: “Michael R. Mastro and Linda A. Mastro shall take no action to transfer or encumber
3 any interest in [the LCY Entities] or any asset of the foregoing entities without written
4 permission of the Trustee or leave of the Court” (the “**Agreed Order**”). As of March 29, 2010,
5 the balance in the LCY Account was \$60,692. In contravention of the Agreed Order, after
6 March 29, 2010, Mastro and Linda disbursed substantially all of these remaining LCY Account
7 funds.

8 **Transaction with Jaguar Land Rover Bellevue**

9
10 On or about February 2009, Mastro and Linda undertook a series of transactions with
11 Jaguar Land Rover Bellevue (the “**Bellevue Dealership**”) to extract the cash equity from their
12 three vehicles. Mastro’s and Linda’s Bentley, Rolls Royce, and Range Rover were owned free
13 and clear of encumbrances at the time. The Bellevue Dealership purchased Mastro’s and Linda’s
14 vehicles¹³ for \$300,000, and then immediately sold them back to Mastro and Linda as “used”
15 vehicles.

16
17 By check dated February 18, 2009, Bentley Bellevue (an entity affiliated with the
18 Bellevue Dealership), paid Linda \$300,000 in “loan proceeds.” The Rolls Royce was the
19 purported collateral for the loan. The \$300,000 was deposited into Mastro’s and Linda’s joint
20 account at Charles Schwab.

21 The \$300,000 check from Bentley Bellevue was effectively a tender of funds for the
22 purchase of Mastro’s and Linda’s Rolls Royce. In addition, pursuant to similar transactions, at
23
24

25 ¹³ Although Mastro and Linda had previously transferred the Rolls Royce to LCY LLC – Series
26 Automobile, the vehicle apparently was titled in Linda’s name at the time of the Bellevue
Dealership transaction.

1 least \$65,000 was received for the Land Rover, and at least \$50,000 was received for the
2 Bentley.

3 Following receipt of the funds, Mastro and Linda then executed purported purchase
4 agreements to buy back each of their “used” vehicles from the Bellevue Dealership. The Court
5 does not believe Linda’s assertions that she was not involved in the Bellevue Dealership
6 transactions.

7 Notably, the transactions with the Bellevue Dealership coincide almost exactly in time
8 with the purported encumbrance of Mastro’s and Linda’s Medina Residence.
9

10 **Gold Bars**

11 On approximately March 23, 2009, Mastro purchased 100 gold bars (the “**Gold Bars**”)
12 for a payment of \$99,300. The Trustee asserts that the funds used to purchase the Gold Bars
13 came from the sale proceeds of the Rolls Royce. The Gold Bars were shipped to Mastro’s and
14 Linda’s Medina Residence on April 15, 2009. There were less than three months between the
15 date the Gold Bars were shipped and the date of the bankruptcy filing. Yet, the Gold Bars were
16 not listed in the bankruptcy schedules filed by Mastro.

17 Mastro and Linda have refused to disclose the location of the Gold Bars or to reveal
18 whether they have been disposed of. Linda asserted that she had no knowledge of the Gold Bars.
19 The Court finds it inconceivable that Linda did not know that the Gold Bars existed, were
20 delivered to her house, and were property of the estate. Thus, this Court finds that the Gold Bars
21 existed on the date of petition, that Mastro and Linda have at all times known where the Gold
22 Bars are located, and that the Gold Bars are currently in Mastro’s and Linda’s possession or
23 control.
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Ownership of the Big Rings

As the case progressed, Linda's statements in her declarations ultimately proved to be false. On June 17, 2011, by oral ruling, Judge Barreca vacated the Partial Summary Judgment Order Regarding Rings, and entered the Order Granting Trustee's Motion to Set Aside Partial Summary Judgment Order Regarding Rings on June 22, 2011. Further, on June 20, 2011, the Court entered an Order Granting Trustee's Motion for Order Preserving Assets ("**Order**

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1 **Preserving Assets**”). The Order Preserving Assets required Mastro and Linda to deliver the Big
2 Rings to K. Alan Smith Jewelers by June 22, 2011, pending the outcome of this lawsuit. Mastro
3 and Linda have failed to comply with the Order Preserving Assets.

4 **Gold Coins and Payment of Mastro’s and Linda’s Attorneys by Hazelrigg III**

5 On approximately December 14, 2009, Hazelrigg III wrote a \$160,000 check to Pacific
6 Funding Group, an entity owned by a business associate of Hazelrigg III. The funds were used
7 to (1) purchase gold coins (the “**Gold Coins**”) that were delivered to Mastro’s and Linda’s
8 Medina Residence and (2) to pay Mastro’s and Linda’s attorneys. Specifically, on December 16,
9 2009, funds from the Pacific Funding Group account were used to purchase \$33,000 in cashier’s
10 checks payable to Mastro’s and Linda’s attorneys. On December 17, 2009, funds from the
11 Pacific Funding Group were used to purchase a cashier’s check payable to Miles Franklin in the
12 amount of \$125,000. Mastro then used the cashier’s check to pay for Gold Coins that he had
13 ordered from the Miles Franklin Company on approximately January 4, 2010. The Gold Coins
14 were shipped to Mastro’s and Linda’s Medina Residence on January 19, 2010.
15

16 On approximately January 19, 2010, Centurion Financial Group (“**Centurion**”), a
17 Hazelrigg III entity, transferred \$28,645 to Eric deGooyer by undated check posted in
18 deGooyer’s personal account. On the same date, \$28,645 was withdrawn from deGooyer’s
19 account to purchase several checks payable to Mastro’s and Linda’s attorneys. At the time of
20 these transactions, Centurion owed Mastro in excess of \$20 million and purported to be unable to
21 pay the amount due.
22

23 Despite proving that these transactions occurred, the Trustee presented no evidence that
24 the funds from Hazelrigg III (\$160,000) or from Centurion (\$28,645) constituted property of the
25 estate or depleted estate assets through any setoff or other effect of the post-petition transactions.
26

1 **Furnishings, Fixtures, and Other Personal Property in the Medina Residence**

2 When the Mastro bankruptcy was filed in July 2009, Mastro and Linda failed to turn over
3 to the Trustee various property in the Medina Residence that Linda asserted belonged to her as
4 separate property. The Trustee retained the firm of James G. Murphy, Inc. to inventory the
5 personal property in the Medina Residence. The Appraisal Report by James G. Murphy, Inc.
6 (the “**Murphy Appraisal**”), dated January 13, 2010, accurately describes the furnishings,
7 fixtures, and other personal property in the Medina Residence on the date of the inventory.
8 Linda made annotations on the Murphy Appraisal to indicate which property was claimed to be
9 separate.
10

11 Linda asserted four sources of separate property: (1) property she brought into the
12 marriage, as set forth in her Premarital Agreement (2) property she inherited from her mother
13 and sister (cash, a residence, jewelry, personal property, and household furnishings), as set forth
14 in their respective wills, (3) property gifted to her by Mastro during their marriage, and (4)
15 property gifted to her from others.
16

17 Specifically, Linda asserted that the wine collection described in the Murphy Appraisal
18 was gifted to her as hostess gifts over the years. She also asserted that the Chihuly Chandelier
19 described in the Murphy Appraisal was a gift to her from the artist. In rebuttal, the Trustee
20 produced a letter from the Chihuly Studio to Mastro indicating that the Chihuly chandelier was
21 purchased by Mastro and Linda. Linda claimed she had documentation to prove the Chihuly
22 chandelier was a gift to her, but rested her case without offering the alleged documentation.
23

24 **Belizean Entities**

25 The Trustee filed the present adversary proceeding on September 29, 2009. The
26 summons and complaint were served on the LCY Trust, Compass Trust Corporation and

1 Compass S.A. (the “**Belizean Entities**”) through their agents, William Vigal (“**Vigal**”) and Mary
2 Simon (“**Simon**”). Vigal and Simon denied that they were agents of the Belizean Entities and
3 challenged the validity of the service of process, but on December 18, 2009, Judge Steiner ruled
4 that the Belizean Entities were validly served by service on Vigal and Simon. The Belizean
5 Entities sought leave to appeal the ruling but their motion for leave to appeal was denied.

6 The Belizean Entities filed an answer to the complaint and asserted that the Court had no
7 personal jurisdiction over them. The Court confirms the earlier finding that Vigal and Simon
8 were agents of the Belizean Entities at the time of service and that the Court has personal
9 jurisdiction over the Belizean Entities.
10

11 The Belizean Entities refused to participate in discovery in this lawsuit. On March 26,
12 2010, the Court granted the Trustee’s motion to compel discovery from the Belizean Entities (the
13 “**Discovery Order**”). The Belizean Entities refused to comply with the Discovery Order. On
14 May 25, 2010, the Court granted the Trustee’s motion for sanctions against the Belizean Entities
15 for refusing to comply with the Discovery Order (the “**Sanctions Order**”). The Belizean
16 Entities were ordered to pay a fine of \$1,000 per day from the date of the Sanctions Order to the
17 date they fully complied with the Discovery Order. The Belizean Entities have refused to
18 comply with the Sanctions Order, and a total of \$402,000 in sanctions have accrued against the
19 Belizean Entities through conclusion of trial on July 1, 2011.
20

21 **Summary Judgment Regarding Self-Settled Trust**

22 On March 25, 2010, the Trustee filed a motion for partial summary judgment asking the
23 Court to rule that the Irrevocable Trust and LCY Trust were self-settled trusts and that the assets
24 of the trusts were property of the bankruptcy estate. On March 26, 2010, the Belizean Entities
25 produced documents purporting to show that Compass Trust Corporation and Compass S.A. had
26

1 resigned their positions relating to The LCY Trust, terminated The LCY Trust, and transferred
2 the assets of The LCY Trust to Mastro and Linda. The documents purported to be dated March
3 19, 2010.

4 On May 28, 2010, Judge Steiner entered an Order Granting Plaintiff's Motion for Partial
5 Summary Judgment Regarding Self-Settled Trusts ("**Summary Judgment re Self-Settled**
6 **Trusts**"), ruling that the Irrevocable Trust and LCY Trust are self-settled trusts and, as such, are
7 void as to Mastro's creditors as a matter of law. Similarly, this Court confirms that the
8 Irrevocable Trust and LCY Trust are self-settled trusts and, as such, void as to Mastro's
9 Creditors. Mastro's and Linda's transfers into the Irrevocable Trust were conveyances of assets
10 for their own use and benefit. The same is true for the LCY Trust.
11

12 **Sale of the Clyde Hill House**

13 On July 16, 2010, the Court entered an order granting the Trustee's motion to sell the
14 Clyde Hill house "free and clear of all liens" for a sale price of \$1,925,000. The net proceeds of
15 the sale were \$1,769,470.18. Pursuant to a court-approved settlement agreement with Avatar,
16 the bankruptcy estate recovered \$750,000 of the net proceeds and the remainder was paid to
17 Avatar.
18

19 **Sale of the Medina Residence**

20 On December 3, 2010, the Court entered an order authorizing the Trustee to transfer the
21 Medina Residence from LCY LLC - Series Home to the bankruptcy estate and to sell the Medina
22 Residence. Pursuant to this order, the Trustee sold the Medina Residence on December 8, 2010.
23 The total net proceeds of the sale were \$8,358,989.64. The Trustee placed the net proceeds of
24 the sale of the Medina Residence into an interest-bearing account pending resolution of claims
25
26

1 asserted by Concept Dorssers and Hendrik Dorssers seeking recovery of a portion of the
2 proceeds.

3 4 ANALYSIS

5 Jurisdiction

6 This Court has jurisdiction pursuant to 28 U.S.C. §§ 157(a)-(b), § 1334(a)-(b), and 11
7 U.S.C. §§ 105, 542, 544, 547, 548, 549, 550 and 551.¹⁵ This is a core proceeding under 28
8 U.S.C. §157(b)(2)(B), (C), (E), (H), (K) and (O). The parties have stipulated to trial before the
9 United States Bankruptcy Court without a jury.
10

11 Mastro and Hazelrigg III's Refusal to Testify and Produce Documents

12 Based on Mastro's and Hazelrigg III's refusal to testify and produce documents based on
13 the Fifth Amendment right against self-incrimination, the Court draws a negative inference with
14 respect to Mastro's financial condition during times material to this case, and with respect to all
15 transactions in which Mastro and Hazelrigg III were participants. *See e.g., Baxter v. Palmigiano*,
16 425 U.S. 308, 318 (1976); *In re Babbidge*, 175 B.R. 708, 721 (Bankr. W.D. Mo. 1994); *In re*
17 *Bailey*, 145 B.R. 919, 927 (Bankr. N.D. Ill 1992). However, the Trustee presented sufficient
18 evidence to support the Court's findings independent of the Court's need to draw any negative
19 inferences. In essence, the negative inferences the Court draws with regard to transactions in
20 which Mastro and Hazelrigg III participated buttress, but do not dictate, any finding or
21 conclusion set forth herein.
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26 ¹⁵ Absent contrary indication, all "Code" and "Section" references herein are to the Bankruptcy Code, 11 U.S.C. §§ 101-1532.

Mastro's Insolvency

Pursuant to the Code, “insolvent” means a “financial condition such that the sum of such entity’s debts is greater than all of such entity’s property, at a fair valuation, exclusive of – (i) property transferred, concealed, or removed with intent to hinder, delay, or defraud such entity’s creditors; and (ii) property that may be exempted from property of the estate under Section 522 of this title.” 11 U.S.C. § 101(32).

Similarly, RCW 19.40.021 provides that,

(a) A debtor is insolvent if the sum of the debtor’s debts is greater than all of the debtor’s assets, at a fair valuation.

(b) A debtor who is generally not paying his or her debts as they become due is presumed to be insolvent.

...

(d) Assets under this section do not include property that has been transferred, concealed, or removed with intent to hinder, delay, or defraud creditors or that has been transferred in a manner making the transfer voidable under this chapter.

(e) Debts under this section do not include an obligation to the extent it is secured by a valid lien on property of the debtor not included as an asset.

RCW 19.40.021(a)-(b), (c)-(d).

Prior to August 21, 2008, and continuing through August 21, 2009, the date of the court order granting the Chapter 7 petition, Mastro was insolvent. First, Mastro had an unreasonably small amount of capital for the business in which he was engaged. Given (a) the extremely poor and declining economic conditions, especially regarding real estate property values, (b) the distressed condition of financial markets, and (c) the illiquid nature of Mastro’s assets and his available sources of liquidity, Mastro retained an unreasonably small amount of capital at August 21, 2008, and at all times through August 2009, to support his ongoing operations. In essence, his operations were doomed to fail.

1 Second, Mastro was unable to pay obligations to his lenders as the obligations became
2 due. Most of Mastro's financing from banks was short term secured and unsecured notes.
3 Declining real estate values and a decrease in real estate sales made it impossible for Mastro to
4 comply with all the demands that his bank lenders were making for payment or additional
5 collateral on his maturing bank debt.

6 Finally, Mastro's liabilities exceeded his assets. Mastro's financial statements showed his
7 net worth at the end of 2008 to be approximately \$125.6 million. However, Mastro's financial
8 statements did not provide a reliable assessment of his financial condition, as they were often
9 based on Mastro's own assessments of value and/or outdated professional appraisals. Moreover,
10 they were unaudited and not prepared in accordance with generally accepted accounting
11 principles. Mastro's amended bankruptcy schedules, filed nine months later, showed Mastro's
12 net worth to be negative \$196.4 million. In the amended bankruptcy schedules, Mastro valued
13 his assets at approximately \$384.6 million and his liabilities at approximately \$581.0 million.
14 Therefore, the Court concludes that given the abysmal state of the real estate market as of August
15 21, 2008, Mastro's assets had already depreciated in value so as to make him balance sheet
16 insolvent. Mastro became insolvent sometime before August 21, 2008, and remained insolvent
17 at all times through August 21, 2009.

18 **Mastro's Intent to Hinder, Delay, or Defraud His Creditors**

19 Mastro was insolvent on or before August 21, 2008 – the date of the formation of the
20 Mastro Irrevocable Trust Agreement. The transfers of the Clyde Hill House, Highlands House,
21 and Medina Residence from the long-standing Revocable Trust into the Irrevocable Trust were
22 undertaken by Mastro with intent to hinder, delay or defraud his creditors. The Clyde Hill House,
23 Highlands House, and Medina Residence were among Mastro's and Linda's most valuable
24
25
26

1 assets, and they were transferred for no consideration -- at a time when Mastro's businesses
2 were suffering and Mastro was getting pressure from Friends and Family and other creditors.
3 The Irrevocable Trust was designed to give Mastro and Linda use of the Clyde Hill House,
4 Highlands House, and Medina Residence, or proceeds of such properties, while depriving their
5 creditors of the ability to recover from the assets. Although the Irrevocable Trust Agreement had
6 language appearing to give some vague protections to Friends and Family, these apparent
7 protections were more cosmetic than substantive. Moreover, the exhibit purporting to list the
8 "protected" Friends and Family, attached to the executed Irrevocable Trust Agreement, is blank.
9 Further, even if the protections for Friends and Family were enforceable, the Irrevocable Trust
10 Agreement would have placed the assets beyond the reach of most of Mastro's creditors.
11

12 Only two months after forming the Irrevocable Trust, as the economy and real estate
13 markets suffered continued decline, Mastro and Linda utilized an increasingly complex series of
14 transactions and entities – the Delaware LCY Entities and Belizean LCY Trust – to supersede the
15 Irrevocable Trust. They also attempted to shield even more assets from creditors. In October
16 2008, while Mastro was insolvent, Mastro and Linda transferred to the LCY Trust not only the
17 Medina Residence¹⁶, but also the Big Rings and other LCY LLC Series Jewelry, the Rolls
18 Royce, and approximately \$1,000,000 to fund a secret bank account – the LCY Account. All of
19 these assets were transferred for no consideration. Despite putting these assets in trust, Mastro
20 and Linda continued to enjoy them and intended to do so for the remainder of their lives. Indeed,
21 after transferring ownership of the assets to the LCY LLC Entities, Mastro and Linda continued
22 to live in the Medina Residence, possess their jewelry, drive the Rolls Royce and spend the LCY
23 Account funds on themselves. The LCY Trust lacked even superficial protections for Friends
24
25

26 ¹⁶ The Clyde Hill House and Highlands House were sold in unrelated transactions.

1 and Family creditors. Moreover, the LCY Trust was structured in a manner to ensure that
2 Mastro had unilateral control over the assets therein. Although Compass S.A. was the protector
3 of the LCY Trust, Mastro was the one-man Advisory Committee to Compass S.A., holding veto
4 power over Compass S.A.

5 In February 2009, growing increasingly desperate, Mastro and Linda went to the
6 Bellevue Dealership to extract the equity from their vehicles. Around this same time, the
7 Medina Deed of Trust was recorded against the Medina Residence – despite the lack of any
8 intent by Linda, Mastro, or LCY LLC – Series Home to actually encumber the property. Rather,
9 the recording of the Medina Deed of Trust was an attempt to hinder, delay or defraud Mastro’s
10 creditors by giving the appearance that the Medina Residence was encumbered while it really
11 was not. Additionally, beginning in early 2009 and continuing through early 2010, Mastro
12 acquired Gold Bars and Gold Coins – portable and difficult-to-trace assets which could be easily
13 liquidated.
14

15 **Defendants’ Liability – Trustee’s Maximum Recovery**

16 The Trustee is entitled to recover the property and amounts set forth below. The Court
17 notes that Mastro’s and Linda’s affairs were intentionally structured in a manner so as to make
18 legal liability confusing and uncertain. Thus, where appropriate, this Court bases its conclusions
19 regarding liability on alternate conclusions of law.
20

21 In some cases, multiple defendants have liability with respect to the same property. In
22 other cases, there are multiple grounds for a defendant’s liability. Notwithstanding multiple
23 defendants being liable or multiple grounds for recovery, the Trustee’s maximum recovery is
24 limited to the total value of the property at issue (plus any other awardable amounts such as
25 interest, fees, and costs).
26

Linda Mastro

Section 541 provides that the commencement of a bankruptcy case creates an estate comprised of

(1) . . . all legal and equitable interests of the debtor in property as of the commencement of the case.

(2) All interests of the debtor and the debtor's spouse in community property as of the commencement of the case that is --

(A) under the sole, equal, or joint management and control of the debtor; or

(B) liable for an allowable claim against the debtor, or for both an allowable claim against the debtor and an allowable claim against the debtor's spouse, to the extent that such interest is so liable.

(3) Any interest in property that the trustee recovers under section 329(b), 363(n), 543, 550, 553, or 723 of this title.

. . .

(6) Proceeds, product, offspring, rents, or profits of or from property of the estate . . .

11 U.S.C. § 541(a). Separate property of a debtor's spouse is not property of the estate. The ultimate characterization of property as either separate or community property is determined according to applicable state law. *See Dumas v. Mantle (In re Mantle)*, 153 F.3d 1082, 1084 (9th Cir. 1998).

Washington law recognizes the right of spouses to have separate property under RCW 26.16.010. Separate property is defined as property acquired before marriage or acquired after marriage by gift, bequest, devise, descent, or inheritance. *Id.* “[T]he right of the spouses in their separate property is as sacred as is the right in their community property, and when it is once made to appear that property was once of a separate character, it will be presumed that it maintains that character until some direct and positive evidence to the contrary is made to appear.” *Guye v. Guye*, 63 Wash. 340, 352 (1911). “Separate property continues to be separate property through all of its changes and transitions so long as it can be clearly traced and

1 identified.” *In re Estate of Witte*, 21 Wn. 2d 112, 125 (1944). “[W]here separate funds have
2 become so commingled with community funds as to make it impossible to trace the former or tell
3 which are separate and which are community funds, all funds, or property into which they have
4 been invested, belong to the community.” *See In re Estate of Binge*, 5 Wn.2d 446, 456-57
5 (1940).

6 When property is acquired during a marriage, it is presumed to be community property.
7 *Beam v. Beam*, 18 Wn. App. 444, 452 (Wash. Ct. App. 1977); *Binge*, 5 Wn.2d at 488. The
8 burden of overcoming this strong presumption is on the party asserting the separate nature of the
9 property. *Beam*, 18 Wn. App. 452; *see also e.g. Berol v. Berol*, 37 Wn.2d 380, 381-82 (1950)
10 (finding that husband’s “bald statement” that a payment was made from separate funds was
11 insufficient to establish the separate character of the asset); *In re Estate of Allen*, 54 Wn.2d 616,
12 622 (1959) (finding an “unsupported statement” that stock purchases were separate property
13 insufficient to rebut the presumption that the assets were community property). The presumption
14 in favor of community property “can be overcome only by clear and convincing evidence.”
15 *Beam*, 18 Wn. App. at 452.

16 Premarital agreements are contracts subject to the principles of contract law. *DewBerry*
17 *v. George*, 115 Wn. App. 351, 364 (Wash. Ct. App. 2003). Under Washington law, a prenuptial
18 agreement may provide for management and classification of future assets and debts. As long as
19 the agreement is freely and intelligently made, it is generally regarded with favor. *Friedlander v.*
20 *Friedlander*, 80 Wn.2d 293, 301 (1972). However, “[w]hen the evidence and unchallenged
21 findings show the parties did not mutually observe an antenuptial property agreement, the court
22 is not bound to enforce it, but may determine the intentions of the parties, in light of the
23 circumstances before and during marriage, to determine its binding effect.” *See In re Marriage*
24
25
26

MEMORANDUM OPINION FOLLOWING TRIAL - 37

1 of *Fox*, 58 Wn. App. 935, 938 (Wash. Ct. App. 1990) (following *In re Marriage of Sanchez*, 33
2 Wn. App. 215, 217-18 (1982)). “The burden is upon the spouse seeking to enforce such an
3 agreement to show that it has been strictly observed in good faith.” *Fox*, 58 Wn. App. at 938.
4 “The laws of contract respecting rescission of antenuptial agreements, whether in writing or not,
5 are applicable: an agreement. . . to rescind may . . . be in writing or inferred.” *Id.* at 939.

6 In *Fox*, a couple entered into a premarital agreement to protect the wife’s separate
7 property - \$179,172 received from the estate of her first husband. The premarital agreement
8 provided that “the separate property of each would remain separate after marriage.” *Id.* at 936.
9 The trial court found that during the marriage the wife had transferred “all of her separate funds .
10 . . to the joint community checking account, and the funds were then spent by both parties on
11 improvements to the family home . . . and other nonidentifiable items,” and that the husband had
12 deposited a \$36,000 inheritance into the joint account, “which was spent by both parties on
13 living expenses.” *Id.* at 937-38. On appeal, the court noted that “disregard of [a premarital]
14 agreement may establish an intent to abandon it, which may constitute a rescission when
15 factually probable because each party knew the other” had used their separate property assets as
16 community assets. *Id.* at 939. The court also found the passage of 11 years since the parties’
17 execution of the agreement to be persuasive evidence that the parties had intended to abandon
18 their original agreement. *Id.* The court held that the agreement was rescinded and abrogated.
19
20
21 *See id.*

22 1. **Linda has failed to establish her claims of separate property.**

23 Linda asserted four sources of separate property: (1) property she brought into the
24 marriage, (2) property she inherited from her mother and sister, (3) property gifted to her by
25 Mastro during their marriage, and (4) property gifted from others. Each is addressed in turn.
26

1 **a. Linda has provided no proof of pre-marriage separate property.**

2 The Premarital Agreement between Linda and Mastro provided that she was to own and
3 control her separate property and enhancements thereto, including property she brought into the
4 marriage – allegedly cash (\$204,301), a house (\$450,000), a car (\$20,000), jewelry (\$1,000,000),
5 furs (\$200,000), and furniture (\$100,000) - all totaling approximately \$2,000,000. However, the
6 itemization set forth above is the full extent of the itemization provided in the Premarital
7 Agreement. Linda offered nothing in the record to (1) substantiate her annotations on the
8 Murphy Appraisal designating various property as being acquired “before Mike”, (2)
9 demonstrate that any of this property still exists, or (3) explain what became of the proceeds
10 from any of this property. For example, the furniture referenced in the Premarital Agreement
11 was not specifically itemized or described, thus it cannot now be identified or traced. In sum, the
12 Court cannot tell what furniture is encompassed by the Premarital Agreement. Likewise, no
13 specific item of jewelry is itemized or described in the Premarital Agreement. The only jewelry
14 referenced in the Premarital Agreement is described generically as “jewelry.” Further, the
15 Engagement Ring, alleged to be encompassed by the Premarital Agreement, was stolen. Linda
16 testified that her subsequent diamond rings, including the Big Rings, were acquired years after
17 her Engagement Ring was stolen. And, there is nothing in the record except for Linda’s
18 testimony regarding proceeds from the sale of the Hawthorne Hills house. This Court declines to
19 believe Linda’s bare assertions of what property was encompassed by the Premarital Agreement.
20 Therefore, this Court holds that Linda has provided no credible proof of pre-marriage separate
21 property. *See Berol*, 37 Wn.2d at 381-82.
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23
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1 **b. Linda has provided no proof of remaining inherited separate property.**

2 Linda claims that during her marriage she inherited various furniture, jewelry, and other
3 personal property from her mother and sister, rendering it separate property. The Court believes
4 that Linda previously inherited property from her mother and sister as set forth in their
5 respective wills. However, the Court does not believe Linda's self-serving testimony asserting
6 that any of the inherited property remained in Linda or Mastro's possession at the date of
7 petition. Moreover, the Court compared the wills of both Linda's mother and sister with the list
8 of personal property prepared pursuant to the Murphy Appraisal, on which Linda made
9 annotations to indicate which property was claimed to be separate. The Court was unable trace a
10 devise of any specific piece of furniture or piece of jewelry from either will to the list of property
11 in the Murphy Appraisal. One possible exception was that Linda identified a coral ring as being
12 separate property on the Murphy Appraisal, and indicated that she had inherited it from her
13 sister. However, the only reference to a coral ring is in Linda's *mother's* will, devising the ring
14 directly to Linda (with no involvement of Linda's sister). Given the conflicting evidence, this
15 Court concludes that the coral ring referred to in the Murphy Appraisal was not inherited from
16 Linda's mother or sister, is community property, and is, therefore, property of the bankruptcy
17 estate.
18
19

20 **c. Linda's and Mastro's failure to abide by the terms of their Premarital**
21 **Agreement rendered it abandoned and rescinded.**

22 Much proof was presented, and many arguments made, regarding Mastro's and Linda's
23 Premarital Agreement. As discussed below, even if the Premarital Agreement had been honored
24 and was enforceable, Linda failed to meet her burden of showing various assets were her
25 separate property. That said, Linda and Mastro failed to implement the provisions of their
26

1 Premarital Agreement, thereby rendering it abandoned and rescinded. *See generally, Fox*, 58
2 Wn. App. at 939-40. Linda's testimony demonstrated that Mastro and she abandoned their
3 Premarital Agreement, commingled all of their property, and enjoyed all of their property
4 together.

5 The Premarital Agreement is a relatively short document, only eight pages exclusive of
6 exhibits. It appears to have been entered into primarily to preserve Mastro's separate property.
7 The recitals to the Premarital Agreement state that Mastro held substantial property "which he
8 will continue to own after marriage as his separate property," and that he intended "to continue
9 devoting all his time and effort . . . to the management and enhancement of his separate
10 property." In exchange, Mastro was "obligated to compensate Linda and the community for his
11 earnings and acquisitions being his separate property . . . and for her joining in, or consenting to,
12 the transactions." Community property was to be created mainly via the Mastro Special Account
13 (\$200,000 per year) and Mike and Linda Mastro Account (\$5,000 per month). In effect, under
14 the terms of the Premarital Agreement, Mastro and Linda were to share a *very limited* amount of
15 community property as compared to the extent of their combined estates.
16

17 The Premarital Agreement also endeavored to preserve Linda's separate property per the
18 terms set forth therein. In essence, each party's pre-marriage property was to remain separate,
19 any future enhancements to separate property were to remain separate, and community property
20 was to be created via the Mastro Special Account and Mike and Linda Mastro Account. The
21 Premarital Agreement further provided for what would happen in the event of the parties'
22 separation, dissolution, or deaths. However, the majority of the Premarital Agreement (five of
23 eight pages) is devoted to discussion of maintaining separate property and creating community
24 property.
25
26

1 Mastro and Linda contravened the terms of the Premarital Agreement with regard to
2 maintaining separate property and creating community property. For example, Linda and Mastro
3 failed to open the only two bank accounts specifically contemplated by the Premarital
4 Agreement. No “Mike & Linda Mastro Account” was ever opened. Linda testified that her old
5 account at Peoples’ Bank (now U.S. Bank) was intended to serve as the Mike & Linda Mastro
6 Account, and that Mastro consistently made deposits into that account, primarily for her to
7 manage. However, although Mastro was added as an authorized signator on that account, the
8 U.S. Bank account is indistinguishable in that respect from Mastro’s and Linda’s other accounts.
9 Mastro and Linda jointly held *numerous* personal bank accounts post-marriage, including
10 accounts at U.S. Bank, Charles Schwab, HSBC, the LCY LLC account at JP Morgan Chase, and
11 a new account in Palm Desert, California. Likewise, no “Mastro Special Account” was opened
12 to provide for the gradual accumulation of community property in the amount of \$200,000 per
13 year. Linda offered no evidence that Mastro consistently deposited \$200,000 per year into *any*
14 account, as required by the Premarital Agreement. Rather, Mastro and Linda enjoyed their
15 property together. In sum, both Mastro and Linda failed to maintain the separateness of their
16 separate property following marriage, and failed to create community property as they had
17 agreed.
18
19

20 **d. Aside from the disregarded Premarital Agreement, other evidence is inconsistent**
21 **with Linda’s claims of holding and controlling separate property.**

22 Even if Mastro’s and Linda’s Premarital Agreement had been followed and remained
23 enforceable, Linda’s claims regarding separate property fail. Linda testified *repeatedly* that she
24 had authorized Mastro to sign her name on any documents he chose to execute on her behalf. As
25 a practical matter, ceding control over all of her legal and financial affairs at a time in her life
26

1 when she was perfectly capable of handling her own affairs is inconsistent with Linda's
2 assertions of holding separate property. Mastro had Linda's unconditional blessing to control
3 every business and financial aspect of their lives, regardless of what property may be affected.

4 For example, Linda testified during trial that she does not now know the location of the
5 two Big Rings that she claims are her separate property via gift. She testified that she gave them
6 to Mastro because she was "sick of those rings." According to Linda's attorney, Mastro refuses
7 to tell Linda where the rings are located. Linda testified that she does not believe they have been
8 sold, but does not know for sure. This arrangement of leaving Mastro in joint control and
9 possession of the Big Rings is wholly inconsistent with a claim of separate property.
10

11 **e. Linda has not established that she received any post-marriage gifts from Mastro**
12 **that are separate property.**

13 Linda asserted that various post-marriage gifts from Mastro, including jewelry,
14 ornamental items, and clothing, are her separate property. The most valuable items among this
15 property claimed to be separate are the Big Rings. Linda's trial testimony clarified that both of
16 the Big Rings were acquired post-marriage, despite her earlier sworn statements to the contrary.
17

18 Even if the Premarital Agreement were found to be valid and enforceable¹⁷, Linda
19 provided no evidence to support her claims that various property was "gifted" to her by Mastro.
20 Outside of clear and convincing evidence, property acquired during marriage is presumed to be
21 community property. This Court declines to believe Linda's bare assertions that various assets
22 acquired with community funds – including, but not limited to the Big Rings -- were "gifts" from
23 Mastro. *See Berol*, 37 Wn.2d at 381-82.
24

25
26 ¹⁷ The Premarital Agreement provided that gifts "of personal property of ornamental or personal
use, such as jewelry or clothing" did not require a gift statement.

1 The Big Rings, in particular, are more like investment assets than property that might be
2 gifted from one spouse to another. They are not mere baubles. In a declaration submitted to the
3 Court, Linda herself asserted that she rarely wore the rings, and when she did, only in settings
4 where their security could be assured. The Big Rings are highly valuable, highly portable,
5 difficult-to-trace assets. The Court, therefore, finds that the Big Rings are not Linda's separate
6 property, but were community property as of the date of petition and are property of the
7 bankruptcy estate.

8 **f. Linda has not established that the wine collection or Chihuly chandelier are her**
9 **separate property.**

10 Linda asserted that the wine collection was her separate property because the wine had
11 been given to her as hostess gifts over the years. The Court does not believe that the wine was
12 gifted to Linda, bottle-by-bottle, as separate property from various guests visiting Mastro's and
13 Linda's home. Outside of clear and convincing evidence, property acquired during marriage is
14 presumed to be community property. If the wine was indeed gifted, the Court concludes that it
15 was gifted to the community of Mastro and Linda.

16 Similarly, Linda asserted that a Chihuly chandelier valued at approximately \$100,000
17 was a gift to her from the artist. The Court does not believe her. However, even if the
18 chandelier was a gift, the Court finds it incredible that Chihuly would have expressly gifted the
19 chandelier to Linda in her separate capacity. This Court declines to accept Linda's bare
20 assertions that the Chihuly chandelier was a separate property gift. Outside of clear and
21 convincing evidence, property acquired during marriage is presumed to be community property.

22 In summary, this Court finds that Linda has failed to establish that she holds *any* property
23 in a separate capacity.
24
25
26

1 **2. Linda is liable for turnover of various property pursuant to 11 U.S.C. § 542.**

2 Section 542 provides that an entity in “possession, custody or control, during the case, of
3 property that the trustee may use sell, or lease . . . or that the debtor may exempt . . . shall deliver
4 to the trustee, and account for, such property or the value of such property.” 11 U.S.C. § 542.

5 “Although courts disagree, most of the appellate courts that have addressed the issue have
6 concluded that entry of a turnover order is appropriate if a debtor came into possession of funds
7 of the estate after the filing of the petition, even if the debtor was no longer in possession of such
8 funds at the time of a bankruptcy trustee’s turnover motion.” *See In re Rynda*, 2011 Bankr.
9 LEXIS 2110 at *2-3 (Bankr. N.D. Cal. 2011). To read Section 542(a) “otherwise would enable
10 possessors of property of the estate to escape trustees’ demands simply by transferring the
11 property to someone else.” *Beaman v. Vandeventer Black, LLP (In re Shearin)*, 224 F.3d 353,
12 357 (4th Cir. 2000) (internal quotations omitted) (referencing *Boyer v. Carlton, Fields, Ward,*
13 *Emmanuel, Smith & Cutler, P.A. (In re USA Diversified Prods., Inc.)*, 100 F.3d 53, 56 (7th Cir.
14 1996)).

15
16 **a. The furniture, furnishings, and other personal property itemized in the Murphy**
17 **Appraisal are community property, and therefore property of the estate, that must be**
18 **turned over to the Trustee.**

19
20 Having concluded that Linda has no separate property, the furniture, furnishings, jewelry,
21 Chihuly chandelier, wine collection, and other personal property itemized in the Murphy
22 Appraisal are community property of the debtor as of the date of petition and, therefore, property
23 of the estate. *See* 11 U.S.C. § 541.

24 Linda must turn over all of the furniture, furnishings, jewelry, Chihuly chandelier, wine
25 collection, and other personal property itemized in the Murphy Appraisal -- with one exception.
26

1 *See* 11 U.S.C. § 542. The audio equipment that was designated in the Murphy Appraisal as
2 built-in to the Medina house shall be excluded. The Trustee has not demonstrated that this
3 equipment is in the control of Linda and Mastro and/or was not sold with the Medina Residence.

4 The Trustee is entitled to a judgment ordering Linda to turn over the furniture,
5 furnishings, jewelry, Chihuly chandelier, wine collection, and other personal property itemized
6 in the Murphy Appraisal that is still in her possession or control, and if she fails to do same, the
7 Trustee is entitled to a judgment for the value of these items.

8
9 **b. The Gold Bars are property of the estate that must be turned over to the Trustee.**

10 The Gold Bars were purchased by Mastro for \$99,300 shortly before bankruptcy. The
11 Court does not believe Linda's assertion that she was unaware of the purchase of the Gold Bars
12 and was not involved in the transaction. The Court concludes that the Gold Bars were
13 community property as of the date of petition and, therefore, property of the estate. *See* 11
14 U.S.C. § 541. The Trustee is entitled to a judgment ordering Linda to turn over any of the Gold
15 Bars that are in her possession or control and if she fails to turn over same, the Trustee is entitled
16 to a judgment for the value of the Gold Bars to be determined at a later hearing. *See* 11 U.S.C. §
17 542.

18
19 **c. The LCY LLC Jewelry, including the Big Rings, is property of the estate that**
20 **must be turned over to the Trustee.**

21 Mastro and Linda transferred ownership of the following jewelry to the LCY Trust
22 through LCY, LLC – Series Jewelry: (a) one platinum ring with 27.80 carat pear shape diamond;
23 (b) one 14 karat white gold ring with 15.93 carat round diamond; (c) one 18 karat yellow gold
24 diamond solitaire ring with one 14.17 carat round diamond; (d) one 18 karat yellow gold ring
25 with one 9.68 carat diamond; (e) one 18 karat yellow gold ring with two rows of seven
26

1 diamonds, two rows of five diamonds and two rows of three diamonds; (f) two 2.5 carat earrings;
2 and (g) one ring with one 10.25 carat diamond --- collectively, the LCY LLC Jewelry. Although
3 Linda asserted that except for the two Big Rings (rings (a) and (b) above) the LCY LLC Jewelry
4 did not exist and was not actually transferred into the LCY Trust, the Court does not believe her.
5 It is illogical that Mastro would so specifically itemize jewelry that did not exist, and then
6 purportedly transfer that jewelry into the LCY Trust -- which was itself expressly designed to
7 protect Mastro's and Linda's assets. The Court does not believe Linda's assertion that Mastro
8 mistakenly listed the LCY LLC Jewelry in the LCY Trust-related documents.
9

10 Having concluded that Linda has no separate property, the LCY LLC Jewelry, including
11 the two Big Rings, was community property as of the date of petition and, therefore, property of
12 the estate. *See* 11 U.S.C. § 541. The Trustee is entitled to a judgment ordering Linda to turn
13 over the LCY LLC Jewelry, including the two Big Rings. *See* 11 U.S.C. § 542. If Linda fails to
14 turn over same, the Trustee is entitled to a judgment for the value of the LCY LLC Jewelry,
15 including the two Big Rings, to be determined at a later hearing.
16

17 **d. Linda is liable for her failure to turn over to the Trustee the \$379,039 that was in**
18 **the LCY Account on the date of the petition.**

19 As of January 2009, Linda's admitted signature demonstrates that she was aware of the
20 existence of the LCY Trust. Linda was a signator on the LCY Account and wrote numerous
21 checks thereon. As of the petition date, although undisclosed, the LCY Account was property of
22 the estate. The Trustee is entitled to a judgment for \$379,039, the amount of funds on deposit in
23 the LCY Account on the date of the petition.
24
25
26

1 **e. Linda is liable for her failure to turn over to the Trustee the Rolls Royce or its**
2 **proceeds.**

3 The Rolls Royce was community property. Linda transferred the Rolls Royce into the
4 LCY Trust in October 2008. Although the exact value of the Rolls Royce on the date of transfer
5 is difficult to determine, the Court finds that the \$300,000 sale price of the Rolls Royce to the
6 Bellevue Dealership in February 2009 is an appropriate valuation. As set forth above, the
7 Bellevue Dealership purchased the Rolls Royce from Mastro and Linda for \$300,000, and then
8 sold it back to them. As part of the sale-back transaction, the Rolls Royce was encumbered by a
9 lien in favor of the Bellevue Dealership. Thus, as of the date of petition, the Rolls Royce was
10 encumbered. On July 28, 2010 Mastro and Linda sold the Rolls Royce to a third party buyer for
11 \$272,000, without obtaining requisite permission from the Court.
12

13 The Rolls Royce was property of the estate on the date of petition, but encumbered by the
14 Bellevue Dealership's lien. Although Mastro and Linda improperly disposed of the Rolls Royce
15 post-petition, rendering them liable pursuant to Sections 549 and 550, the proceeds of the sale of
16 the Rolls Royce to the third party buyer were less than the amount of the encumbrance thereon.
17 Thus, damages for purposes of turnover net to zero.¹⁸
18

19 **3. Linda is not liable for funds allegedly received from Hazelrigg III and Centurion**
20 **Financial Group.**

21 Linda has no liability for funds allegedly received from Hazelrigg III in the amount of
22 \$158,000 and from Centurion Financial Group in the amount of \$28,645. Although the Trustee
23 claims these funds were advanced by Hazelrigg III to offset amounts owed to Mastro, there is no
24 proof of any setoff actually being claimed or effectuated. Moreover, there is no proof that these
25

26 ¹⁸ However, Linda is liable for her disposition of the Rolls Royce and her receipt of the related
proceeds. *See infra.*

1 transactions diminished the value of the estate. The Gold Coins acquired by Mastro and Linda in
2 December 2009 and January 2010, therefore, appear to be post-petition assets not subject to
3 turnover.

4 **4. Linda is liable for property fraudulently transferred into the Irrevocable Trust and for**
5 **property fraudulently transferred into the LCY Trust by placing ownership of various**
6 **assets in the LCY Entities.**

7 A bankruptcy trustee may avoid any transfer of an interest of the debtor in property, or
8 any obligation incurred by the debtor, that was made or incurred on or within 2 years before the
9 date of the filing of the petition, if the debtor voluntarily or involuntarily –
10

11 (A) made such transfer or incurred such obligation with actual
12 intent to hinder, delay, or defraud any entity to which the debtor
13 was or become, on or after the date that such transfer was made or
14 such obligation was incurred, indebted; or (B)(i) received less than
15 a reasonably equivalent value in exchange for such transfer or
16 obligation; and (ii)(I) was insolvent on the date that such transfer
17 was made or such obligation was incurred, or became insolvent as
18 a result of such transfer or obligation; (II) was engaged in business
19 or a transaction, or was about to engage in business or a
20 transaction, for which any property remaining with the debtor was
21 an unreasonably small capital; (III) intended to incur, or believed
22 that the debtor would incur, debts that would be beyond the
23 debtor's ability to pay as such debts matured; or (IV) made such
24 transfer to or for the benefit of an insider, or incurred such
25 obligation to or for the benefit of an insider, under an employment
26 contract and not in the ordinary course of business.

11 U.S.C. § 548(a)(1) (emphasis added). Except to the extent a transfer or obligation under §
548 is voidable under §§ 544, 545, or 547, “a transferee or obligee of such a transfer or
obligation that takes for value and in good faith has a lien on or may retain any interest
transferred or may enforce any obligation incurred . . . to the extent that such transferee or
obligee gave value to the debtor in exchange for such transfer or obligation.” 11 U.S.C. §
548(c). In addition, a trustee may avoid any transfer of an interest of the debtor in property that

1 was made on or within 10 years before the date of the filing of the petition, if such transfer was
2 made to a self-settled trust or similar device. 11 U.S.C. § 548(e).

3 Similarly, under Washington law, “[a] transfer made or obligation incurred by a debtor is
4 fraudulent as to a creditor, whether the creditor's claim arose before or after the transfer was
5 made or the obligation was incurred, if the debtor made the transfer or incurred the obligation:
6 (1) [w]ith actual intent to hinder, delay, or defraud any creditor of the debtor” or “(2) [w]ithout
7 receiving a reasonably equivalent value in exchange for the transfer or obligation, and the debtor:
8 (i) [w]as engaged or was about to engage in a business or a transaction for which the remaining
9 assets of the debtor were unreasonably small in relation to the business or transaction; or (ii)
10 [i]ntended to incur, or believed or reasonably should have believed that he or she would incur,
11 debts beyond his or her ability to pay as they became due.” RCW 19.40.041(1)-(2) (emphases
12 added). In addition, Washington law provides that “all deeds of gift, all conveyances, and all
13 transfers or assignments, verbal or written, of goods, chattels or things in action, made in trust for
14 the use of the person making the same, shall be void as against the existing or subsequent
15 creditors of such person.” RCW 19.36.020.

16
17 A transfer being deemed “void” under state law does not preclude the same transfer from
18 being attacked as an avoidable fraudulent transfer under bankruptcy law. For example, in
19 *Wiswall v. Wallaert*, 149 B.R. 665 (Bankr. W.D. Wash. 1992), the trustee sought to recover real
20 property he alleged that the debtors had fraudulently transferred into a living self-settled trust.
21 The debtors argued that “since the property remained subject to the claims of their then and
22 future creditors [pursuant to RCW 19.36.020], nothing was conveyed.” *Id.* at 667. The court
23 granted partial summary judgment in favor of the trustee, unequivocally rejecting the debtors’
24 argument that there had been no “transfer” for bankruptcy purposes. *Id.* at 668-69.
25
26

1 Similarly, in *Menotte v. Champalanne (In re Champalanne)*, 425 B.R. 707, 713 (Bankr.
2 S.D. Fla. 2010) the debtors alleged that a transfer to their family trust “was not fraudulent
3 because under California law, the California Property remained subject to the claims of creditors
4 after the transfer.” The court held that “[e]ven if that is a correct statement of California law, the
5 transfer may nevertheless be avoidable if the [d]ebtor acted with actual intent to hinder, delay, or
6 defraud creditors.” *Id.*; *see also In re Potter*, 2008 Bankr. LEXIS 3351 (Bankr. D. N.M. 2009)
7 (finding a transfer invalid under California self-settled trust law, but holding the same transfer to
8 be a fraudulent transfer pursuant to § 548(e)).
9

10 To the extent a transfer is avoided as a fraudulent transfer under 11 U.S.C. §§ 544, 548,
11 and state law, the Trustee may recover the property transferred or the value of such property
12 pursuant to 11 U.S.C. § 550(a)(1) from the initial transferee of such property or from the entity
13 for whose benefit the transfer was made, or pursuant to § 550(a)(2) from any immediate or
14 mediate transferee.

15 **a. The transfers of the Clyde Hill House, Highlands House, and Medina Residence**
16 **into the Irrevocable Trust are (1) void as transfers made into a self-settled trust pursuant**
17 **to RCW 19.36.020 and (2) avoidable by the Trustee as fraudulent transfers pursuant to 11**
18 **U.S.C. §§ 544, 548(a)(1)(A)-(B), (e) and RCW 19.40.041(1)-(2)**
19

20 The Irrevocable Trust is a self-settled trust. Thus, the transfers of assets into the
21 Irrevocable Trust were void as transfers made into a self-settled trust, and avoidable as
22 fraudulent transfers. *See* RCW 19.36.020; 11 U.S.C. § 548(e). As set forth above in greater
23 detail, Mastro transferred the unencumbered Clyde Hill House, Highlands House, and Medina
24 Residence (collectively valued in the Irrevocable Trust documents at \$23.7 million) into the
25 Irrevocable Trust with intent to hinder, delay or defraud his creditors. No consideration was paid
26

1 for the transfers and the properties were transferred when Mastro was insolvent. Thus, the
2 transfers of the Clyde Hill House, Highlands House, and Medina Residence into the Mastro
3 Irrevocable Trust were fraudulent transfers.

4 **b. The transfers of various assets into the LCY Trust by placing ownership of the**
5 **assets in the LCY LLC Entities are (1) void as transfers made into a self-settled trust**
6 **pursuant to RCW 19.36.020 and (2) avoidable by the Trustee as fraudulent transfers**
7 **pursuant to 11 U.S.C. §§ 544, 548(a)(1)(A)-(B), (e) and RCW 19.40.041(1)-(2).**

8 The LCY Trust is a self-settled trust. Thus, the transfers of assets into the LCY Trust by
9 placing ownership of the assets in the LCY LLC Entities are void as transfers made into a self-
10 settled trust, and avoidable as fraudulent transfers. *See* RCW 19.36.020; 11 U.S.C. § 548(e). As
11 set forth above in greater detail, Mastro and Linda transferred unencumbered assets, including
12 the Medina Residence, the Rolls Royce, funds totaling approximately \$1,000,000, and the LCY
13 LLC Jewelry, including the Big Rings, into the LCY Trust by placing ownership of the assets in
14 the LCY LLC Entities. Also as set forth above, the transfers of assets into the LCY Trust were
15 undertaken by Mastro with intent to hinder, delay or defraud his creditors. No consideration was
16 paid for the transfers and the properties were transferred when Mastro was insolvent. Therefore,
17 the transfers of assets into the LCY Trust and the LCY LLC Entities were fraudulent transfers.

18 **c. Linda is individually liable as an “immediate or mediate” transferee pursuant to**
19 **11 U.S.C. § 550(a)(2).**

20 Under Section 550(a)(2), a “[t]rustee can . . . recover from any ‘immediate or mediate
21 transferee’ of the initial transferee who does not take in good faith, for value, and without
22 knowledge. *In re Bullion Reserve of North America*, 922 F.2d 544, 548 (9th Cir. 1991).
23 Specifically, Section 550(a)(2) provides that to the extent a transfer is avoided under Section
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26

1 548, a trustee may recover, for the benefit of the estate, the property transferred, or, if the court
2 so orders, the value of such property from “any immediate or mediate transferee.”

3 Although the term transferee is not defined by the Bankruptcy Code, the Ninth Circuit
4 has adopted the “dominion test” to determine whether someone is a transferee, providing that “a
5 transferee is one who has dominion over the money or other asset, the right to put the money to
6 one's own purposes.” *Universal Serv. Admin. Co. v. Post-Confirmation Comm. (In re Incomnet)*,
7 463 F.3d 1064, 1070 (9th Cir. 2006) (internal marks omitted) (citing *Abele v. Mod. Fin. Plans*
8 *Servs. (In re Cohen)* 300 F.3d 1097, 1102 (9th Cir. 2002)).¹⁹ The dominion test “strongly
9 correlates with legal title,” as in the “vast majority of cases, possessing legal title to funds will
10 equate to having dominion over them.” *Incomnet*, 463 F.3d at 1073. The Ninth Circuit
11 explained,
12

13 The focus on “dominion” is useful for those unusual situations in
14 which legal title to funds and the right to put those funds to use
15 have been separated. There are two primary cases when this may
16 occur: (1) when an entity has legal title as a formal matter, but
17 legally does not have any discretion in the application of funds;
18 and (2) when an entity does not possess legal title, but nevertheless
19 has sufficient authority over the funds to direct their disbursement.

18 *Id.* at 1073-74. Restrictions on the use of funds over which an entity exercises control will not
19 necessarily preclude a finding that the entity exercised “dominion” over the funds. *See Id.* at
20 1075.

21 ¹⁹ In *Incomnet*, the Ninth Circuit expressly rejected the “control test,” as espoused by the
22 Eleventh Circuit, and more gently rejected other courts’ attempts to blend or hybridize the
23 separate and distinct “dominion” and “control” tests. *See generally*, 463 F.3d at 1069-1071.
24 “The dominion test focuses on whether the recipient of funds has legal title to them and the
25 ability to use them as he sees fit.” *Incomnet*, 463 F.3d at 1071 (referencing *Bonded Fin. Servs.,*
26 *Inc. v. European Amer. Bank*, 838 F.2d 890, 893 (7th Cir. 1988)). “The control test takes a more
gestalt view of the entire transaction to determine who, in reality, controlled the funds in
question.” *Incomnet*, 463 F.3d at 1071 (referencing *Nordberg v. Societe Generale (In re Chase*
& *Sanborn Corp.)*, 848 F.2d 1196, 1199 (11th Cir. 1988)). The Ninth Circuit stated, “we take
care not to apply the more lenient ‘control test.’” *Incomnet*, 463 F.3d at 1071.

1 Linda is a subsequent transferee for the entire net \$995,106 transfer out of the LCY
2 Account because she at all times had dominion over the LCY Account. As set forth above,
3 Mastro and Linda fraudulently transferred net funds of approximately \$1,000,000 into the LCY
4 Account, and transferred net funds of approximately \$995,106 out of the account. The Court
5 does not believe Linda's assertions that she was not aware of and did not actively participate in
6 concealing and spending funds from the LCY Account. To the contrary, Linda actively
7 participated in the transfers. She was a signator on the LCY Account, and wrote numerous
8 checks thereon. She also received the benefit of both Mastro's and her own expenditures using
9 LCY Account funds. They used the \$995,106 to pay for luxury automobiles, fine dining,
10 designer clothing, trips to ski resorts, travel to Europe and Palm Springs, gold and lawyers. At
11 least \$70,000 of expenditures from the LCY Account are directly traceable to goods and services
12 benefiting Linda alone. Thus, Linda is individually liable for the net \$995,106 transfer out of the
13 LCY Account.
14

15 Linda is a subsequent transferee of the proceeds of the Avatar loan in the amount of
16 \$200,000. As set forth above, Mastro and Linda received the proceeds of a \$3,360,000 loan
17 from Avatar, secured by a deed of trust on the Clyde Hill House and Highlands House which
18 were fraudulently transferred into the Irrevocable Trust. The proceeds of the Avatar Loan
19 included a \$200,000 check payable specifically to Linda, which was later deposited into the LCY
20 Account. Despite her assertion that the check was never delivered to or endorsed by her, she
21 participated in receipt and disposition of the \$200,000, had dominion over the funds in the LCY
22 Account, and derived benefit from the \$200,000 issued in her name. Thus, Linda is individually
23 liable for the \$200,000 received as proceeds of the Avatar Loan. Given the later deposit of the
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1 \$200,000 check into the LCY Account, the Court reiterates that it is not permitting double-
2 recovery, but is articulating alternate bases for liability.

3 Finally, Linda is a subsequent transferee of the proceeds from the Rolls Royce sale and
4 buy-back transaction. As set forth above, the Rolls Royce was fraudulently transferred into the
5 LCY Trust. Subsequently, Linda participated in the Bellevue Dealership sale and buy-back
6 transaction, and was the recipient of \$300,000 in sale proceeds from the sale of the Rolls Royce
7 to the Bellevue Dealership.²⁰ The check was made payable to Linda, and the funds were
8 deposited into Mastro's and her joint account at Charles Schwab. Thus, Linda had dominion
9 over the \$300,000 of sale proceeds and is individually liable for the transfer of them.
10

11 Alternatively, Linda is a subsequent transferee of the \$272,000 of sale proceeds from the sale of
12 the Rolls Royce to the third party buyer. The sale proceeds from the third party buyer
13 transaction were in the form of checks made payable to the order of Linda Mastro, giving her
14 dominion over the funds.

15 Although a subsequent transferee may avoid liability by taking a transfer in good faith,
16 for value, and without knowledge, the Court finds that as to the subsequent transfers to Linda,
17 she had knowledge of the voidability of the transfers, did not provide value for the transfers, and
18 did not receive the transfers in good faith. *See Bullion Reserve*, 922 F.2d at 548.
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25 ²⁰ If the Rolls Royce was transferred from the LCY Trust to Linda prior to the Bellevue
26 Dealership transaction, she would have been a subsequent transferee at that point. Either way,
she was a subsequent transferee of the vehicle (valued at \$300,000) or the subsequent transferee
of the Bellevue Dealership transaction proceeds (\$300,000).

1 **d. Linda is also liable under 11 U.S.C. § 550(a)(1) as a “person for whose benefit**
2 **such transfer was made” for the property fraudulently transferred into the Irrevocable**
3 **Trust and for the property fraudulently transferred into the LCY Trust by placing**
4 **ownership of various assets in the LCY Entities.**

5 Section 550(a)(1) provides that to the extent a transfer is avoided under Section 548, a
6 trustee may recover the property or the value of the property from “the entity for whose benefit
7 such transfer was made.” *See* 11 U.S.C. § 550(a)(1). “The phrase ‘or the entity for whose
8 benefit such transfer was made’ refers to those who receive a benefit as a result of the *initial*
9 transfer from the debtor – not as the result of a subsequent transfer.” *Bullion Reserve*, 922 F.2d
10 at 547. “[A]n entity need not actually benefit, so long as the transfer was *made* for his benefit.”
11 *Id.* (emphasis in original). The bankruptcy trustee’s power to recover from the entity “for whose
12 benefit such transfer was made” is absolute. *Id.*

13
14 Ninth Circuit case law suggests that the beneficiary of a trust may be considered a person
15 for whose benefit a transfer into a trust is made, and may be held strictly liable under § 550(a)(1).
16 *See Kosmala v. Imhof (In re Hessco)*, 295 B.R. 372, 377-78 (BAP 9th Cir. 2003) (finding that
17 “[a]lthough . . . not the sole beneficiaries, the bankruptcy court did not err in finding the deposits
18 to the Trust’s account were made for their benefit”); *Kupetz v. United States (In re California*
19 *Trade Technical Schools, Inc.)*, 923 F.2d 641 (9th Cir. 1991) (finding that the Department of
20 Education’s status as beneficiary of a trust is what rendered it the entity for whose benefit the
21 transfer was made); *see also Brown v. Philips*, 379 B.R. 765 (Bankr. N.D. Ill. 2007) (holding the
22 beneficiary of a trust liable pursuant to § 550(a)(1)); *Terry v. Paxchall*, 403 B.R. 366 (Bankr.
23 E.D. Va. 2009) (same).

1 Linda and Mastro were both individually beneficiaries of the Irrevocable Trust and the
2 LCY Trust. In addition, the structure of the transactions and the supporting facts and
3 circumstances all indicate that each of the transfers into the Irrevocable Trust and into the LCY
4 Trust was made to benefit Linda. For this reason, the Court concludes that Linda is individually
5 and separately liable under 11 U.S.C. § 550(a)(1) for each of the transfers set forth above for
6 which she has been found liable pursuant to 11 U.S.C. § 550(a)(2).²¹ See *Hessco*, 295 B.R. at
7 377-78; *California Trade Technical Schools*, 923 F.2d 641. Again, although the Court is
8 articulating parallel legal bases for liability, the Trustee is entitled to only one recovery. The
9 Court would have held Linda liable for all transfers into the Irrevocable Trust²² and for all
10 transfers into the LCY Trust,²³ but is limiting the Trustee's recovery to what the Trustee
11 requested as set forth in the Pretrial Order.
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16 ²¹ The Court acknowledges the language in *Bullion Reserve* explaining that a “subsequent
17 transferee cannot be an entity for whose benefit the initial transfer was made.” 922 F.2d at 547.
18 However, the Court does not believe that language was intended to be a limitation on finding
19 alternative bases for liability. Instead, the Court finds the language appropriate, in context, to
20 illustrate how the “structure of [Section 550(a)] separates initial transferees and beneficiaries . . .
21 from immediate or mediate transferees.” *Id.* In other words, a subsequent transferee under
22 section 550(a)(2) who is benefited by the transfer does not immediately become a person “for
23 whose benefit” a transfer was made under 550(a)(1) merely because he benefited.

24 ²² The Court would have calculated Linda's liability at \$14,591,010.36. This figure is based
25 upon the \$23,700,000 valuation of the Medina, Clyde Hill, and Highland houses in the
26 Irrevocable Trust documents, minus \$750,000 received from the Avatar settlement, minus
\$8,358,990 received in net proceeds from the sale of the Medina house.

²³ The Court would have found Linda liable as a person “for whose benefit” the following
voidable transfers were made: (1) transfer of the Medina Residence, valued at approximately
\$18,000,000, into LCY LLC – Series Home, (2) net transfer of funds totaling approximately \$1
million into the LCY LLC bank account, (3) transfer of the LCY LLC Jewelry, including the two
Big Rings, into LCY LLC - Series Jewelry, and (4) transfer of the Rolls Royce, valued at
approximately \$300,000, into LCY LLC – Series Auto.

Michael K

Section 550(a)(1) provides that to the extent a transfer is avoided under Section 548, a trustee may recover property or the value of the property from the initial transferee of such transfer. *See* 11 U.S.C. § 5501(a)(1). “Section 550(a) does not define the phrase ‘initial transferee.’” *Incomnet*, 463 F.3d at 1069. However, as set forth above, the Ninth Circuit has adopted the “dominion test” to determine whether someone is a transferee, providing that “a transferee is one who has dominion over the money or other asset, the right to put the money to one's own purposes.” *Id.* at 1070 (internal marks omitted).

The dominion test “strongly correlates with legal title,” as in the “vast majority of cases, possessing legal title to funds will equate to having dominion over them.” *Id.* at 1073. Under Washington law, “legal and equitable ownership of . . . trust property is divided between two parties; the trustee has bare legal title and the beneficiary has the equitable or beneficial ownership.” *O’Steen v. Estate of Wineberg*, 30 Wn. App. 923, 932 (Wash. Ct. App. 1982); *see also In re Marriage of McKean*, 110 Wn. App. 191, 195 (Wash. Ct. App. 2002).

Given (1) the dominion test’s strong emphasis on legal title, (2) Washington law indicating that a trustee holds legal title to trust property, (3) the Ninth Circuit’s express rejection of the less stringent “control test” espoused in other circuits,²⁴ and (4) *Incomnet*’s directive that “dominion” can exist even where an entity has limitations placed on its ability to direct the funds, this Court concludes that, generally, the trustee of a trust has dominion over trust property by holding legal title to the trust’s corpus. Although a trustee’s discretion may be bound by the confines of the operative trust documents *vis a vis* the beneficiary, that does not preclude a trustee from having dominion over the transferred assets. *See Incomnet*, 463 F.3d at 1075.

²⁴ *See supra*, at note 19.

1 The Ninth Circuit has not yet decided in what capacity the trustee of a trust may be liable
2 as an initial transferee under § 550(a)(1). The Trustee relies on *In re Newman Companies, Inc.*,
3 140 B.R. 495 (Bankr. E.D. Wis. 1992) and *Paloian v. LaSalle Bank, N.A.*, 619 F.3d 688 (7th Cir.
4 2010), as authority for holding a trustee personally liable as an “initial transferee” under Section
5 550. Although *Newman* held a trustee personally liable as an “initial transferee,” the Court finds
6 the case to be limited to its own facts, and not persuasive. *Newman*, 140 B.R. at 499.

7 In *Paloian*, the Seventh Circuit held LaSalle Bank, as trustee for a pool of investors,
8 liable as an “initial transferee” under Section 550. However, LaSalle Bank was “a litigant *only*
9 in a trustee’s capacity.” *Paloian*, 619 F.3d at 690 (emphasis added). The Court reasoned,
10

11 Although LaSalle Bank has duties to the trust’s beneficiaries (the
12 investors) concerning the application of funds, the assets’ owner
13 remains the appropriate subject of a preference-avoidance action.
14 If LaSalle Bank must hand \$10 million over to the bankruptcy
15 estate, *it will draw that money from the corpus of the trust, not*
16 *from the Bank’s corporate assets.* This means that the money
really comes from the trust’s investors – the persons for whose
benefit the transfer was made . . . [A] preferential transfer to a trust
is appropriately recovered from the trustee, *who will charge it to*
the trust and thus create the appropriate economic incidence.

17 *Id.* at 691-92 (emphasis added).

18 The Restatement (Second) of Trusts provides that “[w]here liability to third persons is
19 imposed upon [a trustee] . . . because he is the holder of the title to property, a trustee as holder
20 of the title to the trust property is subject to personal liability, but only to the extent to which the
21 trust estate is sufficient to indemnify him.” *Restatement (Second) of Trusts* § 265 (1959).
22 However, Comment A to the Restatement clarifies that “[t]he modern trend has been to hold the
23 trustee as holder of the title to the trust property liable to third persons only as trustee, that is only
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25
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1 to the extent to which the trust estate is sufficient to indemnify him.”²⁵ *Id.* at cmt. a. Recently
2 the Ninth Circuit ruled that a trustee was correct in asserting that “the general law of trusts
3 shield[ed] its personal assets from liabilities incurred while acting as a representative for the
4 trust.” *See Biltmore Assoc., LLC v. Twin City Fire Ins. Co.*, 572 F.3d 663, 676 (9th Cir. 2009).

5 This Court finds the logic of *Paloian* compelling, and concludes that, generally, a trustee
6 should not be personally liable as an “initial transferee” under Section 550(a)(1). Rather, a
7 trustee should be liable only in its capacity as trustee, and should draw from the corpus of the
8 trust to satisfy its liability. Were the law applied otherwise, it would be an unduly broad and
9 inequitable expansion of transferee liability.
10

11 **1. Michael K is liable as an “initial transferee” for the net value of the Clyde Hill**
12 **House, Highlands House, and Medina Residence transferred into the Irrevocable Trust,**
13 **but solely in his capacity as co-trustee of the Irrevocable Trust, pursuant to 11 U.S.C. §**
14 **550(a)(1), and § 544 and RCW 19.40.041(1).**

15 As co-trustee, Michael K held legal title to the Irrevocable Trust property – the Clyde Hill
16 House, Highlands House, and Medina Residence. He admitted to being Co-Trustee of the
17 Irrevocable Trust on multiple occasions leading up to trial.²⁶ Although at trial Michael K
18 questioned the authenticity of his signature on various documents, including the Irrevocable
19

20 ²⁵ Holding a trustee liable only in his capacity as trustee differs from “the earlier law in which the
21 “Holder of the title to the trust property was subject to personal liability to third persons to the
22 same extent that he would have been liable if he had held the property free of trust.”
Restatement (Second) of Trusts § 265 (1959), cmt. a.

23 ²⁶ For example, in an October 2010 declaration Michael K stated, “I was co-trustee of the Trust
24 along with my father.” In a March 2010 deposition, the Trustee asked, “Does your signature
25 appear on the signature page of this [Mastro Irrevocable Trust] document? Michael K
26 responded, “Yes.” The Trustee probed, “That’s your actual signature?” Michael K responded,
“Yes. I sign different all the time.” The Trustee inquired, “Why do you do that?” Michael K
responded, “It depends on what mood I’m in, I guess.” Finally, in the Pretrial Order, Michael K
admitted that on August 1, 2008 he, along with his father as Co-Trustee, entered into the Mastro
Irrevocable Trust Agreement.

1 Trust Agreement, Michael K is bound by his judicial admissions and cannot now claim that he
2 was not the co-trustee of the Irrevocable Trust. As explained by the Ninth Circuit,

3 Under federal law, stipulations and admissions in the pleadings are
4 generally binding on the parties and the Court. Not only are such
5 admissions and stipulations binding before the trial court, but they
6 are binding on appeal as well. . . . Judicial admissions are formal
7 admissions in the pleadings which have the effect of withdrawing a
8 fact from issue and dispensing wholly with the need for proof of
9 the fact . . . Factual assertions in pleadings and pretrial orders,
10 unless amended, are considered judicial admissions conclusively
11 binding on the party who made them.

12 *American Title Insurance Co. v. Lacelaw Corp.*, 861 F.2d 224, 226 (9th Cir. 1988).

13 Further, despite Michael K's claims that he did not sign various operative documents and
14 his submission of signature comparisons to allegedly illustrate same, this Court finds it more
15 likely than not that Michael K signed the documents. The Court is admittedly not a handwriting
16 expert. However, Michael K submitted no conclusive evidence or expert testimony establishing
17 that he did not sign the documents as he originally testified.

18 Review of the Irrevocable Trust Agreement indicates that Michael K, as co-trustee,
19 shared authority with Mastro to administer and manage the Irrevocable Trust's affairs. By
20 jointly holding legal title and jointly managing the Irrevocable Trust's affairs, Michael K
21 exercised dominion sufficient to render him liable as an "initial transferee" under Section
22 550(a)(1). Although this Court believes that as a practical matter Michael K operated entirely at
23 his father's direction and whim, and did not receive any personal benefit from participating in the
24 Irrevocable Trust's transactions, that does not change the legal conclusion that Michael K
25 exercised dominion.

26 Therefore, Michael K is liable for \$23,700,000 as an initial transferee of the property
fraudulently transferred to the Irrevocable Trust, less the net amount of \$750,000 recovered by

1 the Trustee from the sale of the Clyde Hill House, and less the net amount of \$8,358,990
2 recovered by the Trustee from the sale of the Medina Residence. However, as set forth above,
3 this Court finds the logic of *Paloian* compelling, and holds that although Michael K is liable as
4 an initial transferee, he is liable *only* in his capacity as trustee. He is not personally liable.

5 The equities of the situation support the Court's conclusion. Michael K's motivation for
6 participating as co-trustee of the Irrevocable Trust appears to have derived solely from his
7 personal relationship with his father. His participation was not undertaken to benefit, and in no
8 way benefited, his marital community or himself personally.

9
10 **LCY Trust, Compass Trust Corp. and Compass S.A.**

11 Compass Trust Corp. and Compass S.A. appeared in this matter through counsel and filed
12 answers to the Trustee's complaint, but failed to cooperate in discovery. The Court entered the
13 Discovery Order compelling the entities to cooperate, and later issued the Sanctions Order
14 finding the entities in contempt, and awarding discovery sanctions of \$1,000 per day
15 commencing May 25, 2010. Compass Trust Corp. and Compass S.A. did not participate at trial,
16 and are in default.

17 Compass Trust Corp. and Compass S.A. are jointly and severally liable for discovery
18 sanctions pursuant to the Sanctions Order. As of July 1, 2011, the accrued discovery sanctions
19 totaled \$402,000, and continue at \$1,000 per day through the date of judgment.

20
21 Compass Trust Corp. is liable pursuant to 11 U.S.C. § 550(a)(1) as an "initial transferee"
22 of property fraudulently transferred to the LCY Trust -- but only in its capacity as trustee of the
23 LCY Trust. Compass Trust Corp. has no personal liability for the transfers.²⁷

24
25 ²⁷ The Trustee proposed a conclusion of law avoiding the purported transfers of LCY Trust
26 assets by Compass Trust Corp. and Compass S.A. to Mastro and Linda on March 19, 2010,
resulting, apparently, from the March 2010 purported dissolution of the LCY Trust. This was
not addressed in the Pretrial Order, and it does not appear to the Court that any result of the

Hendrik Dorssers and Concept Dorssers

Dorssers is owed nothing pursuant to the February Note, and the Medina Deed of Trust is not valid or enforceable for a plethora of reasons.

First, the February Note transaction was not consummated. Dorssers may have initially believed that he was getting a valid deed of trust as part of the February Note transaction. However, because that the February Note was for the amount of \$12,000,000 – far beyond Dorssers’ lending capacity – it is unlikely that Dorssers actually believed the February Note transaction was legitimate. On their face, the documents memorializing the February Note transaction are blatantly inconsistent with the transaction that Dorssers asserts occurred and do not evidence a transaction by which Mastro intended to be bound.

The February Note provided that the maker promised to pay the sum of \$12,000,000, “*or so much thereof as may be disbursed*, to or for the benefit of the Maker in accordance with *this Note*.” (emphasis added). Although the terms of the February Note indicated that it encompassed up to \$12,000,000 of funds to be loaned in the future, it is undisputed that neither Dorssers (nor any other party) advanced new funds in connection with the February Note. Although Dorssers had advanced approximately \$1,200,000 to Mastro pursuant to the November Note, the February Note transaction was wholly separate. The February Note made no reference to the November Note, to supplanting or amending any earlier notes, or to any previous loans *at all*. In fact, the November 2008 Promissory Note was not canceled and remains unpaid. Likewise, the Medina Deed of Trust also did not reference the November Note transaction or any prior loans. It purported to secure only the February Note of “even date.”

dissolution of the LCY Trust, or transfers made in connection therewith, had the effect of removing assets from the bankruptcy estate. Therefore, the Court makes no determination of § 549 liability based on the March 2010 LCY Trust dissolution.

1 A further inconsistency suggesting that the November Note and February Note were not
2 intended to be related is that the notes were made between different parties. The November Note
3 was between Mastro and Mastandrea as makers, and Hendrik Dorssers as Lender. The February
4 Note was between Mastro, Linda, and LCY LLC-Series Home as makers and Concept Dorssers
5 as lender. It would make little sense for Dorssers to sign a note with LCY LLC Series –Home,
6 an entity to whom he has never loaned money.

7 The Escrow Instructions for the February Note Transaction were also objectively
8 inconsistent with the purported transaction. Although the Escrow Instructions noted that
9 \$1,200,000 had been advanced outside of escrow, they also provided that another \$10,800,000
10 was to be advanced outside of escrow. Dorssers has never claimed that he intended, or would
11 have been able, to advance funds in any amount even close to \$10,800,000.

12 The Memorandum of Understanding that Dorssers signed, in which he allegedly agreed
13 to enforce the February Note and Medina Deed of Trust on behalf of other parties also
14 purportedly secured by the Medina Deed of Trust, is a blatant after-the-fact attempt to try to
15 make the February Note transaction appear legitimate. Dorssers admitted the document was
16 back-dated to December 11, 2008, and that the first time he ever saw the Memorandum of
17 Understanding was when it was faxed to him in the middle of the night on September 11, 2009.
18

19 All of these factors indicate that the February Note transaction was not grounded in
20 reality.
21

22 Second, Mastro, Linda, and LCY LLC- Series Home had no intention of encumbering the
23 Medina Residence. It would be illogical for Mastro and Linda to go to the trouble of transferring
24 the Medina Residence into the LCY Trust, itself designed to protect assets, only to turn around
25 and gratuitously encumber the property. It is undisputed that no new money was advanced in
26

1 connection with the February Note transaction. Moreover, Mastro was a sophisticated real estate
2 developer, with sophisticated legal counsel. Had Mastro's and Linda's intent been to encumber
3 the Medina Residence to secure loans previously made by various Friends and Family, they were
4 familiar with the procedures necessary to accomplish same. As set forth above, the entire
5 transaction surrounding the February Note and Medina Deed of Trust reeks of an attempt to
6 hinder, delay, or defraud Mastro's creditors by attempting to give the appearance that the Medina
7 Residence was encumbered although it really was not.

8
9 Dorssers asserted that his receipt of five payments of \$3,000 per month, consistent with
10 the Loan Fee Agreement, indicated Mastro's and Linda's intent to be bound by the February
11 Note and Medina Deed of Trust. This Court finds that the payments of \$3,000 per month are a
12 neutral fact. Although the payment amounts are consistent with the Loan Fee Agreement, the
13 February Note transaction was a sham. The payments would be equally consistent with Mastro's
14 fraudulent intent for Dorssers to *believe* he had a valid note and deed of trust.

15
16 Third, the February Note was not delivered as required by applicable law. Dorssers is
17 neither a holder nor a holder in due course. Although Dorssers was generally a truthful witness,
18 the Court does not believe Dorssers' self-serving testimony that while staying at a property
19 owned by or rented to Hazelrigg III, he briefly held a stack of papers containing the original
20 February Note and Medina Deed of Trust, thereby effectuating delivery.

21
22 Dorssers asserted, alternatively, that his receipt of interest-only payments supported
23 "constructive delivery" of the February Note. However, the interest-only payments related to the
24 November Note transaction, not the February Note transaction. The November Note indicated
25 that payments to Dorssers were to begin on December 5, 2008. Consistent with the November
26 Note, from December 2008 to July or August of 2009, Dorssers received at least seven interest-

1 only payments in the amount of \$9,876.13 each. This payment amount (\$9,876.13) would reflect
2 10% annum interest-only payments on a \$1,185,136 balance.

3 The Medina Deed of Trust is avoidable by the Trustee as a fraudulent transfer pursuant to
4 § 548 as the entire February Note transaction was sham. To the extent Dorssers would seek to
5 invoke the good faith defense provided in § 548(c), his efforts fail. The burden of proof is on
6 Dorssers to establish good faith. *See e.g., In re Agric. Research and Tech. Group, Inc.*, 916 F.2d
7 528, 535 (9th Cir. 1990). Good faith is based on an objective standard. *Id.* at 535-36. As one
8 court explained,
9

10 If a transferee possesses knowledge of the facts that suggests a
11 transfer may be fraudulent, and further inquiry by the transferee
12 would reveal facts sufficient to alert him that the property is
13 recoverable, he cannot sit on his heels, thereby preventing a
14 finding that he has knowledge. In such a situation, the transferee is
15 held to have knowledge of the voidability of the transfer.

16 *Brown v. Third Nat'l Bank (In re Sherman)*, 67 F.3d 1348, 1357 (8th Cir. 1995) (citations
17 omitted).

18 Dorssers has not met his burden of establishing a good faith defense. At best, he appears
19 to have been too trusting of Mastro and Hazelrigg III. At worst, Dorssers was fully aware the
20 transaction was a sham, but played along to further his own interests. Either way, the Court
21 concludes that Dorssers was on notice that the circumstances surrounding the February Note and
22 Medina Deed of Trust transaction were amiss and that he should have further inquired. In sum:
23 the February Note and Medina Deed of Trust were facially inconsistent with Dorssers' purported
24 understanding of the transaction; Dorssers did not provide anything new of value in exchange for
25 the February Note and Medina Deed of Trust; Dorssers had never loaned money to LCY LLC –
26 Series Home; the February Note and Medina Deed of Trust were approximately ten times
greater than the amount Hendrik Dorssers claimed he was owed pursuant to the November Note

1 transaction; Dorssers did not receive delivery of the February Note; Dorssers signed escrow
2 instructions that were facially inaccurate; and Dorssers received and signed a midnight-faxed
3 Memorandum of Understanding that was backdated.

4 The February Note and Medina Deed of Trust are not enforceable and do not create any
5 valid lien against the Medina Residence or any other property of the bankruptcy estate. The
6 Medina Deed of Trust was a sham, recorded while Mastro was insolvent, with an intent to
7 hinder, delay, or defraud his creditors by giving the appearance that the Medina Residence was
8 encumbered while it really was not. Nothing is owing on the February Note because no
9 advances were made after its execution and because the February Note transaction was a sham.
10 The execution of the February Note and Medina Deed of Trust are avoidable by the Trustee as
11 fraudulent transfers pursuant to 11 U.S.C. §§ 544, 548(a)(1)(A)-(B), (e) and RCW 19.40.041(1)-
12 (2). Dorssers, therefore, is entitled to no judgment against Linda.
13

14 **Prejudgment Interest**

15 The Trustee is entitled to prejudgment interest at the federal prejudgment interest rate on
16 all liquidated amounts awarded above. *See e.g., Banks v. Gill Distrib. Ctrs., Inc. (In re Banks)*,
17 263 F.3d 862, 871 (9th Cir. 2001).
18

19 **CONCLUSION**

20 The Trustee shall present separate judgments consistent with the findings and conclusions
21 set forth in this Memorandum Opinion. Where the Court has articulated alternative bases for
22 liability, the form of judgment should provide clarity to avoid the possibility of eventual double
23 recovery.
24



25
26 **Marc Barreca**
United States Bankruptcy Judge
(Dated as of Entered on Docket date above)

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